

Effect of the Affiliation of  
Hoag Memorial Hospital Presbyterian with  
St. Joseph Health System on the  
Availability or Accessibility of Healthcare Services

Prepared for the Office of the  
California Attorney General

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TABLE OF CONTENTS

**Contents**

**INTRODUCTION AND PURPOSE .....3**

**BACKGROUND AND DESCRIPTION OF THE TRANSACTION .....5**

HISTORY OF THE HOSPITAL .....5

REASONS FOR THE AFFILIATION AGREEMENT .....6

TRANSACTION PROCESS AND TIMING.....7

AFFILIATION AGREEMENT.....8

**PROFILE OF HOAG MEMORIAL HOSPITAL PRESBYTERIAN .....13**

GENERAL INFORMATION .....13

KEY STATISTICS .....14

PROGRAMS AND SERVICES .....14

ACCREDITATIONS, CERTIFICATIONS, AND AWARDS .....18

SEISMIC ISSUES .....18

PATIENT VOLUME .....19

PAYER MIX .....21

IMPORTANCE TO CALOPTIMA.....23

MEDICAL STAFF .....24

FINANCIAL PROFILE .....25

COST OF HOSPITAL SERVICES.....26

CHARITY CARE.....27

COMMUNITY BENEFIT SERVICES.....29

**PROFILE OF ST. JOSEPH HEALTH SYSTEM .....36**

ST. JOSEPH HEALTH SYSTEM KEY STATISTICS .....37

QUALITY & AWARDS .....38

COMMUNITY BENEFIT SERVICES.....40

LOCATION OF HOSPITALS OWNED BY ST. JOSEPH HEALTH SYSTEM AND HOAG MEMORIAL HOSPITAL PRESBYTERIAN  
.....42

ST. JOSEPH HEALTH SYSTEM’S SOUTHERN CALIFORNIA HOSPITALS .....43

**ANALYSIS OF HOAG’S SERVICE AREA .....45**

HOAG’S SERVICE AREA DEFINITION .....45

SERVICE AREA MAP .....46

DEMOGRAPHIC PROFILE .....47

PAYER/INSURANCE MIX IN THE SERVICE AREA .....49

SELECTED HEALTH INDICATORS .....52

2010 COMMUNITY HEALTH NEEDS ASSESSMENT .....54

HOSPITAL SUPPLY, DEMAND, AND MARKET SHARE .....55

HOSPITAL MARKET SHARE .....57

MARKET SHARE BY SERVICE LINE .....61

MARKET SHARE BY ZIP CODE .....63

SERVICE AVAILABILITY BY BED TYPE .....64

MEDICAL/SURGICAL BEDS .....64

CRITICAL CARE BEDS (ICU/CCU).....65

OBSTETRICS BEDS.....66

PEDIATRIC BEDS .....67

CHEMICAL DEPENDENCY BEDS.....68

NEONATAL INTENSIVE CARE BEDS .....68

EMERGENCY DEPARTMENT VOLUME AT HOSPITALS IN THE SERVICE AREA .....69

EMERGENCY DEPARTMENT CAPACITY .....70

**SUMMARY OF INTERVIEWS .....71**

REASONS FOR THE TRANSACTION .....71

SELECTION OF SJHS AS THE AFFILIATION PARTNER .....72

IMPORTANCE OF THE HOSPITAL TO THE COMMUNITY .....73

EXPECTATIONS AND GOALS OF THE AFFILIATION .....73

VIEWS OF REGIONAL HEALTH PLAN REPRESENTATIVES .....74

VIEWS OF CALOPTIMA AND ORANGE COUNTY HEALTH SYSTEM AGENCY .....	75
IMPACT ON AVAILABILITY OR ACCESSIBILITY .....	75
OPPOSITION TO THE AFFILIATION.....	75
<b>ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES .....</b>	<b>76</b>
CONTINUATION OF HOAG AS A GENERAL ACUTE CARE HOSPITAL .....	76
EMERGENCY SERVICES .....	76
MEDICAL/SURGICAL SERVICES .....	76
INTENSIVE CARE/CORONARY CARE SERVICES .....	76
OBSTETRICS SERVICES .....	76
NEONATAL INTENSIVE CARE BEDS .....	76
CHEMICAL DEPENDENCY BEDS.....	77
REPRODUCTIVE HEALTH SERVICES .....	77
EFFECTS ON SERVICES TO MEDI-CAL, COUNTY INDIGENT, AND OTHER CLASSES OF PATIENTS .....	77
EFFECTS ON THE LEVEL AND TYPE OF CHARITY CARE HISTORICALLY PROVIDED.....	78
EFFECTS ON COMMUNITY BENEFIT PROGRAMS.....	78
EFFECTS ON STAFFING AND EMPLOYEE RIGHTS.....	78
EFFECTS ON MEDICAL STAFF .....	78
ALTERNATIVES.....	78
<b>CONCLUSIONS.....</b>	<b>79</b>
POTENTIAL CONDITIONS FOR TRANSACTION APPROVAL BY THE CALIFORNIA ATTORNEY GENERAL .....	79
RECOMMENDED ACTION .....	81
<i>APPENDICES</i> .....	82

## INTRODUCTION AND PURPOSE

Hoag Memorial Hospital Presbyterian, a California nonprofit public benefit corporation (“Hoag”), has requested the California Attorney General’s consent to enter into an affiliation with St. Joseph Health System, a California nonprofit public benefit corporation (“SJHS”), Mission Hospital Regional Medical Center, a California nonprofit public benefit corporation, St. Jude Hospital, a California nonprofit public benefit corporation, St. Joseph Hospital of Orange, a California nonprofit public benefit corporation, and St. Mary Medical Center, a California nonprofit public benefit corporation. SJHS is the sole member of the four entities and all four operate hospitals in Southern California. Collectively, they are referred to herein as “SJHS SC Hospitals.”

The George Hoag Family Foundation and the constituent churches of the Los Ranchos Presbytery of the Presbyterian Church, as represented by the Association of Presbyterian Members, are the co-members of Hoag.

Hoag and SJHS have agreed to create Covenant Health Network, Inc., a California nonprofit public benefit corporation (“Covenant”). Covenant will serve as a co-member of the four Southern California entities with SJHS. Covenant will serve as a co-member of Hoag with the George Hoag Family Foundation and the Association of Presbyterian Members.

This report, prepared for the Office of the California Attorney General, describes the possible effects that the proposed affiliation may have on the accessibility and availability of healthcare services in the service area.

Medical Development Specialists, LLC (“MDS”), a healthcare planning and policy consulting firm, was retained to prepare this report. In its preparation, MDS has utilized the following:

- A review of the application submitted by Hoag to the California Attorney General on October 22, 2012, and supplemental information and documents subsequently provided by Hoag;
- A review of various press releases and news articles related to Hoag and other hospital transactions;
- Interviews with community representatives, representatives of Hoag’s medical staff, management, and Board of Directors, SJHS representatives, health plan representatives, CalOptima representatives, and others;
- An analysis of financial, utilization, and service information provided by Hoag’s management and the California Office of Statewide Health Planning and Development (“OSHPD”); and

- An analysis of publicly available data and reports regarding area healthcare services including:
  - Demographic characteristics and trends;
  - Payer mix;
  - Hospital utilization rates;
  - Health status indicators; and
  - Hospital market share.

## BACKGROUND AND DESCRIPTION OF THE TRANSACTION

### *History of the Hospital*

Hoag Memorial Hospital Presbyterian is a general acute care hospital currently with two hospital locations under one license: 1 Hoag Drive, Newport Beach, California and 16200 Sand Canyon Avenue, Irvine, California. In 1940, George Hoag, Sr., his wife Grace, and their son George Hoag II established the George Hoag Family Foundation, and in 1950, they donated the necessary funds to begin construction of the hospital. It took two years to complete construction, and on September 15, 1952, the hospital opened and was named Hoag Memorial Hospital Presbyterian. At that time there were 75 beds, 68 staff physicians, and 60 employees. Hoag was founded as a community partnership between the constituent churches of the Los Ranchos Presbytery, as represented by the Association of Presbyterian Members and the George Hoag Family Foundation. The two organizations still remain involved as the corporate members of Hoag. Today, Hoag has 484 licensed beds at its Newport Beach location.

In September 2010, Hoag opened the Hoag Hospital Irvine. It is an 84-bed general acute care hospital that offers a variety of inpatient and outpatient services. In November of 2010, at the same location in Irvine, Hoag opened the affiliated Hoag Orthopedic Institute that it operates as a joint venture with physicians. The Hoag Orthopedic Institute has 70 licensed beds and is on a separate license.

### **The George Hoag Family Foundation (“Hoag Family Foundation”)**

The Hoag Family Foundation is a private, nonprofit public benefit corporation that formed to promote charitable endeavors that aim to improve social conditions, promote human welfare, and to alleviate pain and suffering. The Hoag Family Foundation focuses primarily on funding nonprofit organizations that support community healthcare programs, social service programs, and youth programs in Los Angeles, Orange County, and the Central Coast areas of California.

The Hoag Family Foundation is interested in providing improved or expanded services through programs already in operation. It will make grants for capital expenditures, such as equipment purchases, construction, and renovation. Some of the organizations the Hoag Family Foundation funded in 2012 include:

- **French Hospital Medical Center**, in the amount of \$80,000, for the underwriting of the purchase for a percutaneous navigation biopsy system;
- **Hoag Hospital Foundation**, in the amount of \$1,600,000, as a first installment towards a \$16 million grant in support of diabetes, an endowed Cancer Medical Chair, and capital expenditures for the Hoag Cancer Center;
- **Union Rescue Mission**, in the amount of \$125,000, providing operational support for Hope Gardens Family Center, a transitional housing and residential campus for homeless women and families; and

- **Cedars-Sinai Medical Center**, in the amount of \$20,000, for the COACH for Kids mobile medical program, which provides low income children in Los Angeles with primary healthcare and case management.

### **The Los Ranchos Presbytery**

The Los Ranchos Presbytery is an organization comprised of 56 churches that spans an area of more than 2,000 square miles in Southern California. The organization's many churches are involved in ministries within their own neighborhoods, and partnerships with each other across the Presbytery. The Los Ranchos Presbytery, seeks to "further the Kingdom of God" by serving its congregations through encouraging relationships between its churches and the wider community. The Los Ranchos Presbytery is represented by the Association of Presbyterian Members.

The Los Ranchos Presbytery actively issues grants and loans that benefit:

- Global and local mission activities;
- Community leadership training;
- Congregational development/redevelopment; and
- Partnership development.

### ***Reasons for the Affiliation Agreement***

The Hoag Board of Directors ("Board") has stated the following reasons why the proposed affiliation is necessary and desirable:

- The current climate of the healthcare community requires collaboration among healthcare providers to achieve better value;
- The affiliation will enable Hoag to better serve the poor and vulnerable populations of Orange County;
- The affiliation will create integration, coordination, and systems of care across Orange County that neither organization could achieve alone and that can fill the gaps and avoid fragmentation;
- The joint resources, collaborative networks, geographical coverage, and influence provided by the affiliation will create the possibility to effectively design and implement population health strategies for the region and address problems that are community-wide; and

- All levels of care will be better coordinated, resources will be more efficiently utilized, and they will have an increased ability to provide improved access to high quality healthcare across Orange County.

The Board selected SJHS as an affiliation partner because both are nonprofit, faith-based organizations with similar missions, moral concerns, objectives, and commitments for providing healthcare services. Hoag’s mission statement is “Our mission as a nonprofit, faith based hospital is to provide the highest quality healthcare services to the communities we serve.” SJHS’s mission is “To extend the healing ministry of Jesus in the tradition of the Sisters of St. Joseph of Orange by continually improving the health and quality of life of people in the communities we serve.” The affiliation is envisioned to provide a more comprehensive geographic network that will provide better healthcare at a lower cost. The Board believes that developing a population health management strategy is key to the success of the affiliation.

### ***Transaction Process and Timing***

- 2008 – A coalition of hospitals, health systems, the County of Orange Healthcare Agency, CalOptima, the Coalition of Community Clinics, physician groups, and local healthcare agencies begin to explore creating a “managed system of care” for low-income and uninsured in Orange County. The members of the coalition agree to fund the development of a feasibility plan and plan of action;
- January 2010 – Coalition report produced: “A Plan for the Equitable, Organized, and Integrated Delivery of Health Care Services for Underserved Residents of Orange County”;
- April 2010 – Coalition report produced: “Financing a Managed System of Care for the Low-Income Uninsured in Orange County”;
- 2011 – The coalition ended based upon an expectation that the uninsured would be covered under the 2010 Federal Patient Protection and Affordable Care Act and various “politics”;
- 2011 and early 2012 – The senior administration and board leadership from SJHS and Hoag have discussions and engage work groups regarding the creation of an integrated delivery system;
- June 16, 2012 – The Hoag Board passes a resolution to authorize the development of a letter of intent with SJHS;
- June 28, 2012 – SJHS and Hoag enter into a letter of intent to develop a Southern California integrated delivery system;
- August 15, 2012 – SJHS and Hoag publicly announce the proposed affiliation;

- September 25, 2012 – The Hoag Board passes a resolution approving the material terms and authorizes the execution of an affiliation agreement; and
- October 22, 2012 – Hoag provides notice of the proposed affiliation and requests the California Attorney General’s consent.

### ***Affiliation Agreement***

The proposed Affiliation Agreement, dated October 15, 2012, and submitted to the Office of the California Attorney General on October 22, 2012, contains the following major provisions:

- Covenant, incorporated by Hoag, was created to serve as a co-member of Hoag (with the Hoag Family Foundation and Association of Presbyterian Members) and as a co-member of the SJHS SC Hospitals (with SJHS);
- The stated primary purpose of Covenant is to create an integrated community healthcare delivery system that will foster greater access to high quality, dependable, affordable, and compassionate care within the area it serves. Covenant will accomplish this by, among other things, creating specialized care, developing new, innovative systems of care, advancing population health and fee-for-value systems, and fostering better care in a sustainable way for the poor and the vulnerable in the service area;
- Hoag and SJHS will retain their individual identities and faith affiliations;
- The Covenant Board shall consist of seven members: four members designated by SJHS and three designated jointly by the Hoag Family Foundation and the Association of Presbyterian Members. SJHS shall at all times have the right to designate at least a majority of Covenant’s Board;
- There is no exchange of cash, assets, or similar financial considerations, the merger or consolidation of any existing legal entities, the sale, purchase, or lease of part or all of any existing hospital;
- The parties agree to develop a physician alignment strategy utilizing St. Joseph Heritage Healthcare (“Heritage Foundation”), an affiliate of SJHS that operates as a nonprofit medical practice foundation described in California Health and Safety Code section 1206, subdivision (l). Heritage will either act as the medical foundation for Hoag or provide expertise and resources in the development of a separate medical foundation and associated medical group at Hoag;
- The Covenant Board will be responsible for providing strategic planning leadership and oversight including:
  - The charitable mission of Covenant;

- The performance of the Covenant CEO; and
- The implementation of strategy, including a population health strategy.
- Certain actions of the Covenant Board will require supermajority<sup>1</sup> approval of the Covenant Board as summarized below:
  - Any restatement, modification, or amendment to the Hoag Articles of Incorporation or Bylaws;
  - Any restatement, modification, or amendment to the Covenant Articles of Incorporation or Bylaws;
  - The appointment and removal of Hoag Board members;
  - The appointment and removal of the Covenant CEO;
  - The appointment and removal of the Hoag CEO;
  - The approval of the Covenant budget and strategic plan (which shall be part of the SJHS Integrated Strategic and Financial Plan);
  - The approval of any capital or operating expenditure in excess of \$2,500,000 by any entity Covenant is a member or co-member;
  - The approval of growth opportunities:
    - Growth opportunities refer to transactions in which revenue or goodwill is purchased, equity business arrangements, and all new business lines and opportunities.
    - Any action on growth opportunities within the communities that SJHS SC Hospitals serve will be the responsibility of SJHS. If SJHS decides to avail itself of the opportunity it will be presented to the Covenant Board for supermajority vote. If the Covenant Board does not approve the opportunity, SJHS is free to pursue the opportunity outside of the service area.

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<sup>1</sup> “Supermajority” means the affirmative vote of three (3) of the four (4) Covenant Board members designated by SJHS and two (2) of the three (3) Covenant Board members designated jointly by the Association of Presbyterian Members and the Hoag Family Foundation.

- The approval of equity transfers from any entity controlled by Covenant to any source until June 30, 2016, except for:
  - Care for the Poor Transfers<sup>2</sup> (which are voluntary for Hoag); and
  - Financial requirements for the Heritage Foundation or those required by the California Department of Managed Care.
- SJHS retains reserved powers as described below:
  - The approval of the integrated strategic and financial plan of Covenant;
  - Unbudgeted capital and operating expenditures in excess of \$5,000,000;
  - Appointment and removal of the CEOs of the SJHS SC Hospitals;
  - Approval of merger, acquisition, sale, or disposition of substantially all of the assets of Covenant or SJHS SC Hospitals;
  - Creation of, or majority investment in, a Covenant-affiliated and legally recognized entity or joint venture;
  - Entry into a management agreement of a non-Catholic facility; and
  - The approval of amendments to the bylaws of the SJHS SC Hospitals.
- The Association of Presbyterian Members and the Hoag Family Foundation have reserved powers as described below:
  - Changes or amendments to Hoag’s mission, articles of incorporation, or bylaws;
  - Merger or dissolution of Hoag and any sale of all or substantially all of the assets of Hoag; and
  - Appointment and removal of Hoag Board members.
- Covenant shall preserve the use of the “Hoag” name;
- The proposed transaction is not intended to impact the maintenance of separate medical staffs or physician privileges;

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<sup>2</sup> Each SJHS SC Hospital provides 7.5% of net income that is set aside annually for the care of the poor, underserved, and medically indigent. An additional 2.5% of net income goes towards grant initiatives of the SJHS Foundation, as well as towards its endowment.

- The Hoag Orthopedic Institute, LLC, a California Limited Liability Company, is not a party to this transaction. Hoag is the owner of 51% of the membership interest in the Hoag Orthopedic Institute with the remaining 49% of the membership interests owned by physicians and physician groups. The Hoag Orthopedic Institute owns and operates an orthopedic specialty hospital pursuant to a sublease agreement with Hoag. The Hoag Orthopedic Institute is located on the Irvine campus and leases its workforce and other services from Hoag;
- The Covenant CEO shall be an SJHS employee and have the responsibility for executive management of the SJHS SC Hospitals and Hoag;
- A permanent standing committee of the Hoag Board will be delegated full authority for the management, operational, financial, and governance oversight of Hoag’s Women’s Health Services Program, also known as the Women’s Health Institute, at facilities owned or controlled by Hoag;
  - The Hoag Board shall retain the right to appoint and remove members of the Hoag Women’s Health Committee;
  - Hoag and its operations, including the Women’s Health Program, are not governed by, and are not subject to, the Ethical and Religious Directives<sup>3</sup>;
- Hoag shall be subject to the capital approval policy of SJHS, which includes a centralized allocation process;
  - Until June 30, 2016, application of the SJHS Capital Approval Policy to Hoag and Covenant is subject to the following commitments:
    - No less than 50% of Hoag’s annual adjusted operating EBITDA<sup>4</sup> will be allocated to Hoag directly for maintenance and routine capital; and
    - No less than 80% of the annual adjusted operating EBITDA of Covenant will be available to support the Covenant Strategic Plan.

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<sup>3</sup> The Ethical and Religious Directives for Catholic Healthcare Services were developed by the Committee on Doctrine of the National Conference of Catholic Bishops and approved as the national code by the full body of bishops at its June 2001 General Meeting. The purpose is to “reaffirm the ethical standards of behavior in healthcare that flow from the Church’s teaching about the dignity of the human person, second, to provide authoritative guidance on certain moral issues that face Catholic health care today.”

<sup>4</sup> Adjusted Operating EBITDA means consolidated income/loss from operations before interest expense, taxes, depreciation and amortization, adjusted for non-controlling interests and ownership or membership interest.

- The Hoag Hospital Foundation, a California nonprofit public benefit corporation (“Hoag Foundation”), whose sole member is Hoag, is excluded from this transaction and maintains a separate endowment and investment portfolio. The affiliation will have no effect on the charitable mission, corporate purposes, name, or operation of the Hoag Foundation;
  - Transfers from the Hoag Foundation to Hoag for operating programs, capital investments, or any other purpose consistent with Hoag’s charitable mission will be in addition to the amounts allocated to Hoag through the SJHS centralized allocation process and the SJHS process for approving the strategic and financial plan.
- Hoag shall be subject to the SJHS system office allocation policy for management fee assessments and corporate allocations;
- Hoag will not be required to contribute to the annual fee from SJHS to the Sisters of St. Joseph of Orange;
- SJHS and Hoag will continue to be separate and distinct employers; and
- The parties are committed to the permanency of the affiliation.

## PROFILE OF HOAG MEMORIAL HOSPITAL PRESBYTERIAN

### *General Information*

Hoag provides inpatient, outpatient, and emergency services for the residents of Orange County, California. Hoag operates a 484 licensed bed hospital in Newport Beach. Hoag entered into a fifteen year lease in February 2009 to operate a second hospital, Hoag Hospital Irvine, licensed for 84 beds.

HOAG - BED DISTRIBUTION			
Bed Type	Hoag Hospital License 2012		
	Hoag Memorial Presbyterian Hospital	Hoag Hospital Irvine	Combined
Medical/Surgical	329	72	401
Coronary Care	12		12
Neonatal Intensive Care	21		21
Intensive Care	31	12	43
Obstetrics	70		70
Chemical Dependency Services	21		21
<b>Total*</b>	<b>484</b>	<b>84</b>	<b>568</b>

Source: Hoag License

\*Excludes 70 licensed beds at Hoag Orthopedic Institute

Hoag also has the following affiliated entities that are excluded from the transaction with SJHS:

- **The Hoag Foundation** is a nonprofit corporation that raises funds to support Hoag. Hoag is the sole corporate member of the Hoag Foundation; and
- **Hoag Orthopedic Institute** operates an orthopedic specialty hospital on the Irvine campus, and Hoag has a 51% interest in the joint venture. In addition, the Hoag Orthopedic Institute holds a majority ownership interest in two outpatient surgery centers, Main Street Specialty Surgery Center, LLC, and Orthopedic Surgery Center of Orange County, LLC, and a holding company, Orthopedic Specialists of Newport Beach, LLC.

Hoag’s Newport Beach hospital has an emergency department that is classified as “basic level” with 58 licensed emergency treatment stations. It also has 19 surgical operating rooms and 5 cardiac catheterization labs. Hoag Hospital Irvine has an emergency department that is classified as “basic level” with 14 licensed emergency treatment stations. It also has 3 surgical operating rooms and 2 cardiac catheterization labs.

## Key Statistics

HOAG KEY STATISTICS			
	2010	2011	2012
Inpatient Discharges	28,827	26,517	24,984
Licensed Beds	652	568	568
Patient Days	120,960	114,523	108,845
Average Daily Census	331	314	297
Occupancy	51%	55%	53%
Average Length of Stay	4.2	4.3	4.4
Emergency Services Visits	82,614	103,720	104,987
Cardiac Catheterization Procedures	11,474	11,178	17,534
Total Live Births	7,667	6,016	5,989
Physicians on Medical Staff	Approximately 1,500		
Current Number of Employees (FTEs)	Approximately 4,600		

Sources: OSHPD Disclosure Reports, 2010-2011 and Hoag

- For Fiscal Year (“FY”) 2012, Hoag had a total of 24,984 discharges, 108,845 patient days, and an average daily census of 297.4 (53% occupancy of licensed beds);
- For FY 2012, Hoag had 104,987 emergency department visits and 5,989 deliveries;
- In 2012, Hoag performed approximately 17,534 diagnostic cardiac catheterization procedures;
- Hoag reduced its licensed beds in 2011 because of the opening of the Hoag Orthopedic Institute that provides inpatient and outpatient orthopedic services; and
- Hoag’s Newport Beach campus has 4,028 employees, Hoag Hospital Irvine has 634 employees, the Hoag Orthopedic Institute has 223 employees, and the Hoag Foundation has 32 employees.

## Programs and Services

Hoag offers a comprehensive range of healthcare services that includes two acute care hospitals, seven health centers, five urgent care centers, as well as five institutes that provide specialized services.

Services at Hoag’s Newport Beach hospital include general medical/surgical, obstetrics, intensive care, coronary care, neonatal intensive care, and other intensive care. Hoag’s Newport Beach hospital also provides the following services:

- Radiology and Imaging Services: Advanced musculoskeletal imaging, spinal and musculoskeletal injections, computed tomography (CT), MRI, cardiac MRI,

coronary/cardiac CT Angiography, MRI, ultrasound, interventional radiology, advanced neuroimaging, and women's imaging services;

- Diabetes Care: The Mary and Dick Allen Diabetes Center provides services for adults and children with type 1, type 2, and gestational diabetes. It also offers other educational and support services designed specifically to assist patients with diabetes and their families;
- Palliative Care: Focuses on improving the quality of life for people with serious, but not life threatening, illnesses and helping them through the use of medical management and emotional support;
- Chemical Dependency Services: The Chemical Dependency Recovery Center offers medical care through individualized assessment, placement, and treatment, and includes services such as detox, group and individual counseling, education regarding the disease of addiction and recovery, individualized and specialized programs, as well as recovery management;
- Rehabilitation Services: Inpatient and outpatient rehabilitation services that includes physical therapy, speech language therapy, and occupational therapy. Additional specialized programs are available for patients with neurological disorders, pelvic floor dysfunction, and other orthopedic conditions;
- Respiratory Care: Includes the diagnosis and treatment of lung cancer, chronic obstructive lung diseases, asthma, interstitial lung diseases, pulmonary vascular disease, pulmonary hypertension, sleep disorders, acute and chronic respiratory failure, and simple and complex lung infections;
- Gastrointestinal (GI) Care: Includes services such as routine screenings as well as specialty therapeutic procedures. The GI Lab has six procedure rooms and performs over 12,000 procedures annually for disorders including gastroesophageal reflux disease, Barrett's esophagus, esophageal cancer, and colon cancer;
- Pastoral Care;
- End of Life Care; and
- Emergency Services: 24-hour basic emergency services.

Services at Hoag Hospital Irvine include a medical/surgical unit, intensive care services, and a 24-hour emergency department. Additional services are:

- Palliative care;
- Respiratory care;

- Cardiovascular surgery;
- Nuclear medicine;
- Cardiac catheterization;
- Laboratory services;
- Radiology and imaging services (including MRI and PET);
- Wound healing and hyperbaric medicine; and
- End of life care.

In addition, Hoag has seven health centers in Orange County, each offering a variety of services, as indicated below:

- **Hoag Health Center – Aliso Viejo**
  - Services include family practice, general surgery, imaging services, breast care, infectious disease, internal medicine, laboratory, oral surgery, physical therapy, plastic surgery, and podiatry.
- **Hoag Health Center – Costa Mesa**
  - Services include primary and urgent care, pediatric urgent care, imaging services, laboratory services, pediatrics, and physical therapy.
- **Hoag Health Center – Fountain Valley**
  - Services include primary and urgent care, and physical therapy.
- **Hoag Health Center – Huntington Beach**
  - Services include cardiology, family practice, gastroenterology, hematology/oncology, breast care and imaging services, other imaging services internal medicine, laboratory services, nephrology, obstetrics and gynecology, ophthalmology, orthopedic surgery and sports medicine, pharmacy, physical medicine and rehabilitation, podiatric surgery, pulmonary, and rheumatology.
- **Hoag Health Center – Irvine (Woodbridge)**
  - Services include endocrinology, family practice, breast and imaging services, other imaging services, laboratory services, obstetrics and gynecology, physical therapy, and primary and urgent care.

- **Hoag Health Center – Irvine (Woodbury)**
  - Services include primary and urgent care, and imaging services that include ultrasound and X-Ray.
- **Hoag Health Center – Newport Beach**
  - Services include cardiac rehabilitation, lung and esophageal services, imaging services, blood donor services, laboratory services, urgent care, outpatient EKG, and executive health; and
  - It is also home to the Hoag Endoscopy Center, the Mary and Dick Allen Diabetes Center, and the Hoag-USC Surgical Center for Digestive Diseases.

Hoag also operates five urgent care centers located in Anaheim Hills, Huntington Harbour, Newport Beach, Orange, and Tustin. Each of these locations offers occupational medicine, urgent care, and wellness services that include: pre-employment services, injury care services, flu services, drug screening, TB screenings, health promotion, and education and coaching.

Additionally, Hoag has five specialty institutes focusing on the care for cancer, heart and vascular, neurosciences, women’s health, and orthopedics.

- The Hoag Family Cancer Institute, located at Hoag’s Newport Beach hospital, specializes in the treatment of a variety of cancers that include: brain cancer, breast cancer, hematologic cancer, lung cancer, prostate cancer, gastrointestinal cancers, gynecologic cancers, and melanoma. The Cancer Institute also provides numerous support services for patients and their families;
- The Hoag Heart & Vascular Institute offers services, at Hoag’s Newport Beach and Irvine hospitals, that include: arrhythmia management, cardiovascular surgery, cardiac rehabilitation, cardiovascular testing, and valve and vascular screenings;
- The Hoag Neurosciences Institute provides services at Hoag’s Newport Beach hospital and the Hoag Health Center-Newport Beach, and offers significant expertise in many neurological disorders that include: addiction medicine, multiple sclerosis, pain medicine, brain tumor, epilepsy, memory and cognitive disorders, mental health, stroke, spine program, sleep disorders, headaches, and movement disorders/Parkinson’s disease;
- The Hoag Women’s Health Institute offers a variety of services that include: clinical care for prenatal, delivery, and fertility needs, as well as specialized gynecological care and surgical services, breast care screening, diagnosis, treatment, and surgery. Additionally, the Women’s Health Institute offers specialized Breast Care Centers at both Hoag’s Newport Hospital and the Hoag Health Center-Irvine; and
- The Hoag Orthopedic Institute provides inpatient services at Hoag Hospital Irvine and Hoag’s Newport Beach hospital, and is also affiliated with Main Street Specialty Surgery

Center and Orthopedic Surgery Center of Newport Beach for outpatient surgery. Some of the services include surgery related to: foot and ankle, hand and wrist, hip, knee, sports medicine, spine, shoulder and elbow, and trauma and fracture care.

### ***Accreditations, Certifications, and Awards***

Hoag is accredited by Det Norske Veritas Healthcare, Inc. (DNV), effective January 21, 2010 through January 21, 2013. Hoag's affiliate, Hoag Orthopedic Institute, is also accredited by DNV, effective November 19, 2010 through November 19, 2013. The current accreditation by DNV replaced Hoag's previous accreditation with the Joint Commission. DNV has also certified Hoag as a Primary Stroke Center, effective January 22, 2010 through January 22, 2013. Additionally, Hoag is designated by the American Nurses Credentialing Center (ANCC) as a Magnet Hospital.

Over the years, Hoag has received several accolades and achievements as a top hospital in Southern California, some of which include:

- Named one of Becker's Hospital Review's 100 Great Hospitals in 2012;
- Rated one of America's Top 50 Hospitals by an independent healthcare research firm for ranking in the top 5% nationally for clinical quality;
- Named the most preferred hospital by Orange County residents for the 16th consecutive year based on a National Research Corporation consumer study; and
- Named "Best Hospital in Orange County" for the 16th time by readers of The Orange County Register.

### ***Seismic Issues***

Using the HAZUS seismic criteria<sup>5</sup>, Hoag has completed its initial structural evaluation of its buildings, and has estimated that the costs of the necessary seismic improvements will be approximately \$19.7 million. As of September 30, 2011, Hoag had incurred \$14.1 million of the estimated total cost of these seismic improvements.

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<sup>5</sup> OSHPD is using HAZARDS U.S. ("HAZUS"), a state-of-the-art methodology, to re-assess the seismic risk of SPC-1 buildings. Buildings that are determined to pose a low seismic risk may be reclassified to SPC-2. The SPC-2 buildings would have until 2030 to comply with the structural seismic safety standards.

## Patient Volume

The following table shows patient volume trends at Hoag for FY 2007 through 2011.

HOAG - SERVICE VOLUMES						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>PATIENT DAYS</b>						
Intensive Care*	5,765	10,278	9,901	10,040	11,040	8,851
Coronary Care	3,621	3,295	3,035	3,117	2,935	2,811
Neonatal Intensive Care	4,893	5,404	5,013	5,350	5,719	5,101
Other Intensive Care	4,769	5,245	4,908	6,192	7,403	7,492
Medical/Surgical	73,093	79,416	73,598	73,615	64,172	61,896
Obstetrics	16,718	18,625	18,094	17,769	18,544	18,472
Chemical Dependency Services	5,287	5,336	4,941	4,877	4,710	4,222
Pediatrics	595	78	-	-	-	-
<b>Total</b>	<b>114,741</b>	<b>127,677</b>	<b>119,490</b>	<b>120,960</b>	<b>114,523</b>	<b>108,845</b>
<b>DISCHARGES</b>						
Intensive Care*	403	1,423	1,349	1,305	1,245	484
Coronary Care	164	182	143	126	139	123
Neonatal Intensive Care	346	373	376	368	400	325
Other Intensive Care	457	458	502	493	829	886
Medical/Surgical	20,199	21,452	20,794	20,299	17,181	16,427
Obstetrics	5,485	6,149	5,907	5,775	6,246	6,260
Chemical Dependency Services	526	480	461	461	477	479
Pediatrics	340	58	-	-	-	-
<b>Total</b>	<b>27,920</b>	<b>30,575</b>	<b>29,532</b>	<b>28,827</b>	<b>26,517</b>	<b>24,984</b>
<b>AVERAGE LENGTH OF STAY</b>						
Intensive Care*	14.3	7.2	7.3	7.7	8.9	18.3
Coronary Care	22.1	18.1	21.2	24.7	21.1	22.9
Neonatal Intensive Care	14.1	14.5	13.3	14.5	14.3	15.7
Other Intensive Care	10.4	11.5	9.8	12.6	8.9	8.5
Medical/Surgical	3.6	3.7	3.5	3.6	3.7	3.8
Obstetrics	3.0	3.0	3.1	3.1	3.0	3.0
Chemical Dependency Services	10.1	11.1	10.7	10.6	9.9	8.8
Pediatrics	1.8	1.3	-	-	-	-
<b>Total</b>	<b>4.1</b>	<b>4.2</b>	<b>4.0</b>	<b>4.2</b>	<b>4.3</b>	<b>4.4</b>
<b>AVERAGE DAILY CENSUS</b>						
Intensive Care	15.8	26.0	27.1	27.5	30.2	24.2
Coronary Care	9.9	8.3	8.3	8.5	8.0	7.7
Neonatal Intensive Care	13.4	13.6	13.7	14.7	15.7	13.9
Other Intensive Care	13.1	13.2	13.4	17.0	20.3	20.5
Medical/Surgical	200.3	200.5	201.6	201.7	175.8	169.1
Obstetrics	45.8	47.0	49.6	48.7	50.8	50.5
Chemical Dependency Services	14.5	13.5	13.5	13.4	12.9	11.5
Pediatrics	1.6	0.2	-	-	-	-
<b>Total</b>	<b>314.4</b>	<b>322.4</b>	<b>327.4</b>	<b>331.4</b>	<b>313.8</b>	<b>297.4</b>
<b>OTHER SERVICES</b>						
Inpatient Surgeries	9,732	10,083	10,042	10,264	8,332	6,210
Outpatient Surgeries	11,609	12,062	9,728	10,830	10,550	9,679
Emergency Visits	77,166	72,501	84,485	82,614	103,720	104,987
Cardiac Cath Procedures	10,793	11,354	11,800	11,474	11,178	17,534
Obstetric Deliveries	5,240	5,933	5,620	5,560	6,016	5,989

Sources: OSHPD Disclosure Reports, 2007-2011

\*Stroke unit patients reclassified to medical/surgical in FY 2012

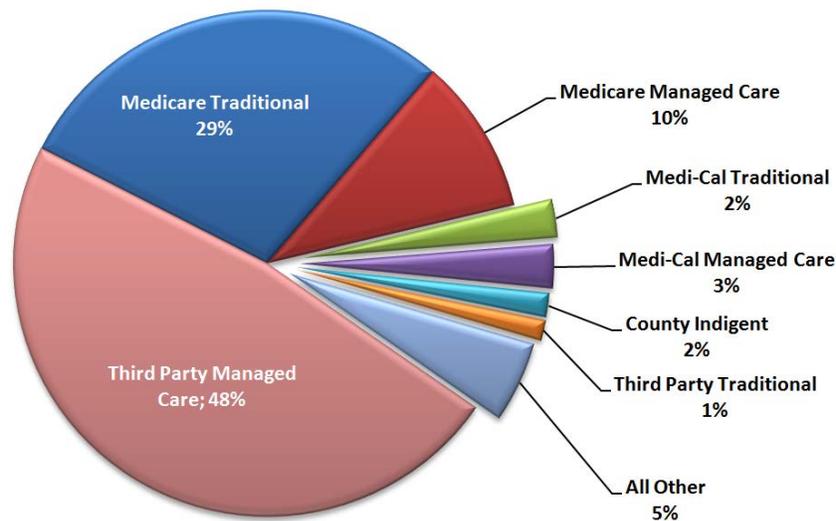
A review of historical utilization trends at Hoag between FY 2007 and FY 2012 supports the following conclusions:

- Over the five reported years, total patient days have fluctuated from a high in 2008 of 127,677 to a low in 2012 of 108,845;
- Inpatient discharges have also fluctuated with 2012 discharges dropping 11% from 2007;
- Medical/surgical patient days have dropped significantly (16%) since 2010;
- In 2008, the pediatric inpatient services at Hoag were discontinued, and a relationship with Children's Hospital of Orange County was established for pediatric care;
- The average daily census for Hoag has decreased to approximately 300 patients per day;
- The overall average length of stay has increased from 4.1 in 2007 to 4.4 in 2012;
- Inpatient surgeries dropped 40% between 2010 and 2012 to 6,210 surgeries. Outpatient surgeries dropped 11% between 2010 and 2012 to 9,679 surgeries. Some of the drop in surgical volume is attributable to the opening of the Hoag Orthopedic Institute that provides inpatient and outpatient surgical services to orthopedic patients;
- Cardiac catheterization volume increased 60% between 2011 and 2012;
- Between 2010 and 2012, emergency visits increased by 27% to their highest volumes, with an average of 287 visits per day (up from 226 visits per day in 2010); and
- Hoag had on average 5,700 deliveries in between 2007 and 2012, with almost 6,000 in 2012.

## ***Payer Mix***

For 2011, Hoag's payer mix based on inpatient discharges consisted of predominantly Third-Party Managed Care patients who accounted for nearly half of all inpatient hospital discharges. Medicare patients accounted for about 40% of the discharges, with Medicare Traditional at approximately 30% and Medicare Managed Care at 10%. Additionally, 1.5% of all inpatient hospital discharges were indigent patients (uninsured/poor), compared to 4.1% for Orange County and 4.7% for the State of California. Medi-Cal Traditional (2%), Medi-Cal Managed Care (3%) and Other\* (5%) made up the remaining 10% of payer inpatient discharges.

**Hoag Payer Mix, 2011**



**Total Discharges: 26,517**

\*"Other" includes self-pay, workers' compensation, other government, and other payers

Source: OSHPD Financial Disclosure Report, FY 2011 (based on inpatient discharges)

The following table illustrates Hoag's discharge payer mix compared to Orange County and California for 2011. The comparison shows that Hoag has a much higher percentage of Third-Party Managed Care patients and lower percentages of Medi-Cal Managed Care and Medi-Cal Traditional patients relative to other hospitals in Orange County and statewide.

2011 PAYER MIX COMPARISON						
	Hoag		Orange County		California	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Managed Care	751	2.8%	23,982	9.8%	259,715	8.5%
Medi-Cal Traditional	646	2.4%	25,991	10.7%	563,693	18.4%
<b>Medi-Cal Subtotal</b>	<b>1,397</b>	<b>5.3%</b>	<b>49,973</b>	<b>20.5%</b>	<b>823,408</b>	<b>27.0%</b>
Medicare Traditional	7,651	28.9%	64,506	26.5%	898,156	29.4%
Medicare Managed Care	2,639	10.0%	31,434	12.9%	251,403	8.2%
<b>Medicare Subtotal</b>	<b>10,290</b>	<b>38.8%</b>	<b>95,940</b>	<b>39.4%</b>	<b>1,149,559</b>	<b>37.6%</b>
Third-Party Managed Care	12,697	47.9%	72,339	29.7%	697,936	22.8%
<b>Third-Party Managed Care Subtotal</b>	<b>12,697</b>	<b>47.9%</b>	<b>72,339</b>	<b>29.7%</b>	<b>697,936</b>	<b>22.8%</b>
Third Party Traditional	350	1.3%	8,954	3.7%	150,185	4.9%
Other Payers	1,373	5.2%	6,524	2.7%	88,883	2.9%
Other Indigent	0	0.0%	2,460	1.0%	55,946	1.8%
County Indigent	410	1.5%	7,536	3.1%	89,385	2.9%
<b>Other Subtotal</b>	<b>2,133</b>	<b>8.0%</b>	<b>25,474</b>	<b>10.5%</b>	<b>384,399</b>	<b>12.6%</b>
<b>Total</b>	<b>26,517</b>	<b>100%</b>	<b>243,726</b>	<b>100%</b>	<b>3,055,302</b>	<b>100%</b>

Excludes normal newborns

Source: OSHPD Quarterly Reports, 2011

## *Importance to CalOptima*

CalOptima is the County organized health plan that administers health insurance to low-income families, children, seniors, and persons with disabilities in Orange County. Its mission is to provide members with access to quality healthcare that is cost-effective and compassionate. With 418,481 members (many of them children), CalOptima is the second largest insurer in Orange County and provides coverage to one in seven residents and almost a third of the community's children through three major programs. Hoag only sees a small percentage (3.7%) of CalOptima inpatients when compared to area hospitals as shown in the following table.

<b>CalOptima Inpatient Discharges, 2011</b>		
	<b>Discharges</b>	<b>Percentage</b>
Fountain Valley Rgnl Hosp and Med Ctr	4,542	17.6%
Children's Hospital of Orange County	3,032	11.8%
UC Irvine Medical Center	2,707	10.5%
AHMC Anaheim Regional Medical Center	2,108	8.2%
<b>St. Joseph Hospital - Orange</b>	<b>1,641</b>	<b>6.4%</b>
<b>Mission Hospital Regional Medical Center</b>	<b>1,379</b>	<b>5.4%</b>
Garden Grove Hospital and Medical Center	1,290	5.0%
Orange Coast Memorial Medical Center	1,217	4.7%
<b>Hoag Memorial Hospital Presbyterian</b>	<b>959</b>	<b>3.7%</b>
Coastal Communities Hospital	956	3.7%
Kaiser - All	848	3.3%
Western Medical Center - Santa Ana	791	3.1%
West Anaheim Medical Center	719	2.8%
<b>St. Jude Medical Center</b>	<b>534</b>	<b>2.1%</b>
Children's Hospital at Mission	383	1.5%
Huntington Beach Hospital	366	1.4%
Placentia Linda Hospital	308	1.2%
Western Medical Center Hospital - Anaheim	304	1.2%
La Palma Intercommunity Hospital	235	0.9%
Saddleback Memorial Medical Center	226	0.9%
Los Alamitos Medical Center	183	0.7%
<b>Mission Hospital Laguna Beach</b>	<b>123</b>	<b>0.5%</b>
All Other	897	3.5%
<b>Total Discharges</b>	<b>25,748</b>	<b>100%</b>

Note: Excludes normal new borns

Source: OSHPD Patient Discharge Database, 2011

## Medical Staff

Hoag has over 1,800 physicians on the medical staff, with a large number of specialties represented.

HOAG MEDICAL STAFF PROFILE 2010-2011				
Specialty	Board Certified		Board Eligible	
	2010	2011*	2010	2011*
Allergy and Immunology	5	5	1	1
Anesthesiology	54	52	6	5
Cardiovascular Disease	57	65	6	12
Child Psychiatry	2	2	1	1
Colon and Rectal Surgery	4	4	-	1
Dental	-	-	15	14
Dermatology	37	40	5	6
Gastroenterology	34	33	7	6
General/Family Practice	105	100	34	33
General/Preventative Medicine	2	2	-	-
General Surgery	71	72	21	17
Internal Medical	357	366	71	90
Neurological Surgery	12	12	5	6
Neurology	17	17	5	5
Nuclear Medicine	5	5	-	-
Obstetrics and Gynecology	95	91	11	14
Oncology	34	35	5	4
Ophthalmology	61	59	2	5
Oral Surgery	12	12	2	3
Orthopaedic Surgery	34	46	4	5
Otolaryngology	30	32	-	-
Pathology	12	14	-	-
Pediatric- Allergy	4	4	1	-
Pediatric- Cardiology	11	11	2	2
Pediatrics	128	128	34	36
Physical Medicine/Rehabilitation	10	9	1	2
Plastic Surgery	63	65	14	19
Podiatry	12	16	1	2
Psychiatry	13	15	3	5
Pulmonary Disease	38	37	3	4
Radiology	36	38	3	4
Thoracic Surgery	15	16	4	4
Urology	24	20	5	4
Vascular Surgery	5	7	7	7
Other	65	66	27	29
<b>Total</b>	<b>1,464</b>	<b>1,496</b>	<b>306</b>	<b>346</b>

Source: OSHPD Disclosure Reports 2010-2011

\*Unaudited

## Financial Profile

Hoag's reported net income has fluctuated over the past five years, from a net gain of \$123.2 million in 2007 to a net loss of nearly \$58.5 million in 2008. Much of this fluctuation can be attributed to net non-operating revenue; that is, revenue that is not directly related to the provision of healthcare services. This revenue includes unrestricted contributions, income and gains from investments, and various government assessments, taxes, and appropriations. In 2011, Hoag experienced a loss on operations of \$22.6 million in part due to the development of Hoag Hospital Irvine and the Hoag Orthopedic Institute. However, some of these losses were offset by \$18.8 million of non-operating revenue, resulting in a net loss of only \$3.8 million for 2011. Over the last five reported years, Hoag's net operating revenue and operating expenses increased by 31% and 42%, respectively. Unaudited financial statements for 2012 indicate that Hoag should report a significant improvement in net income for 2012 despite lower inpatient volumes.

Hoag's current assets-to-liabilities ratio has decreased steadily over the last five years from 2.05 in 2007 to 1.11 in 2011. Whereas, the average statewide ratio of current assets to current liabilities is 1.47. Hoag's average percentage of bad debt is approximately 1.6% and is slightly lower the statewide average of 1.8%.

HOAG FINANCIAL AND RATIO ANALYSIS: FY 2006-2011 (FISCAL YEAR ENDING SEPTEMBER 30)						
	FY2007	FY2008	FY2009	FY2010	FY2011*	
Patient Days	114,741	127,678	119,490	120,960	114,523	
Discharges	27,920	30,575	29,532	28,827	26,517	
ALOS	4.1	4.2	4.0	4.2	4.3	
Net Operating Revenue	\$570,326,064	\$666,083,066	\$675,000,958	\$721,288,928	\$746,987,760	
Operating Expense	\$569,829,975	\$651,779,589	\$658,946,945	\$701,113,254	\$811,353,623	
Net from Operations	\$32,045,043	\$32,717,586	\$31,201,858	\$34,826,158	(\$22,619,164)	
Net Non-Operating Rev.	\$91,237,908	(\$91,126,975)	(\$4,016,834)	\$31,271,194	\$18,798,922	
Net Income	\$123,282,951	(\$58,409,389)	\$27,185,024	\$66,097,352	(\$3,820,242)	
<b>California Average</b>						
Current Ratio	1.47	2.05	1.66	1.75	1.06	1.13
Days in A/R	61.3	40.4	44.4	38.7	41.7	40.9
Bad Debt Rate	1.8%	1.3%	1.7%	1.5%	1.6%	1.6%
Operating Margin	0.38%	5.32%	4.78%	4.52%	4.73%	-2.87%

Source: OSHPD Disclosure Reports, 2007-2011\*\*

\*Unaudited

\*\*OSHPD reports do not include the Foundation or HOI

## Cost of Hospital Services

Hoag's operating cost of services includes both inpatient and outpatient care. In 2011, approximately 47% of Hoag's total costs were associated with Medicare patients and 43% with third-party payers. The remaining 10% is attributed to Medi-Cal, indigent, and other payers.

HOAG COST OF SERVICES BY PAYER CATEGORY 2007-2011					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011*
Operating Expenses	\$569,829,975	\$651,779,589	\$658,946,945	\$701,113,254	\$811,353,623
<b>Cost of Services By Payer:</b>					
Medicare	\$261,447,056	\$294,604,270	\$303,997,344	\$332,347,808	\$380,912,063
Medi-Cal	\$14,132,292	\$17,668,037	\$19,968,488	\$21,392,868	\$32,689,511
County Indigent	\$8,317,788	\$11,513,985	\$9,691,697	\$12,830,249	\$18,752,572
Third Party	\$271,351,446	\$309,460,703	\$305,651,030	\$312,427,765	\$346,427,024
Other Payers	\$14,581,393	\$18,532,594	\$19,638,387	\$22,114,564	\$32,572,453

Source: OSHPD Disclosure Reports, 2007-2011

\*Unaudited

## Charity Care

The reported dollar value of charity care charges for Hoag varies substantially depending on the source (audited financials, submissions to OSHPD, or the written notice submitted to the Attorney General). According to Hoag's OSHPD reports, Hoag's charity care charges have fluctuated from a low of approximately \$16.6 million in 2007 to a high of nearly \$28.8 million in 2011. The five-year average for charity care charges was \$24.0 million.

The following table shows a comparison of charity care and bad debt for Hoag and all general acute care hospitals in the State of California. The five-year (2007-2012) average of charity care and bad debt for Hoag, as a percentage of gross patient revenue, was 3.0%. This is lower than the five-year statewide average of 3.6%. According to OSHPD, "the determination of what is classified as...charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

CHARITY CARE COMPARISON										
HOAG CHARITY CARE - FY 2007 to FY 2011										
(Millions)										
	2007		2008		2009		2010		2011	
	Hoag	CA	Hoag	CA	Hoag	CA	Hoag	CA	Hoag	CA
Gross Pt Revenue	\$1,369.3	\$207,991.2	\$1,654.4	\$230,007.7	\$1,694.3	\$252,204.3	\$1,840.6	\$270,511.0	\$1,931	\$287,439
Charity	\$16.6	\$3,162.2	\$21.9	\$4,116.5	\$25.7	\$4,603.4	\$27.1	\$5,587.1	\$28.8	\$5,859
Bad Debt	\$18.4	\$3,943.6	\$27.2	\$3,761.9	\$26.1	\$4,293.4	\$29.1	\$4,510.8	\$30.7	\$4,939
<b>Total</b>	<b>\$35.0</b>	<b>\$7,105.8</b>	<b>\$49.2</b>	<b>\$7,878.4</b>	<b>\$51.9</b>	<b>\$8,896.7</b>	<b>\$56.2</b>	<b>\$10,097.9</b>	<b>\$59.6</b>	<b>\$10,798</b>
Charity as a % of Gross Rev.	1.2%	1.5%	1.3%	1.8%	1.5%	1.8%	1.5%	2.1%	1.5%	2.0%
Bad Debt as a % of Gross Rev.	1.3%	1.9%	1.6%	1.6%	1.5%	1.7%	1.6%	1.7%	1.6%	1.7%
Total as a % of Gross Rev.	2.6%	3.4%	3.0%	3.4%	3.1%	3.5%	3.1%	3.7%	3.1%	3.8%
<b>Uncompensated Care</b>										
Cost to Charge Ratio	39.3%	26.3%	38.3%	26.0%	38.0%	25.1%	37.3%	25.0%	39.9%	24.6%
Cost of Charity	\$6.5	\$833.0	\$8.4	\$1,069.4	\$9.8	\$1,153.4	\$10.1	\$1,396.2	\$11.5	\$1,441
Cost of Bad Debt	\$7.2	\$1,038.9	\$10.4	\$977.2	\$9.9	\$1,075.7	\$10.8	\$1,127.3	\$12.3	\$1,215
<b>Total</b>	<b>\$13.7</b>	<b>\$1,871.9</b>	<b>\$18.8</b>	<b>\$2,046.6</b>	<b>\$19.7</b>	<b>\$2,229.2</b>	<b>\$21.0</b>	<b>\$2,523.5</b>	<b>\$23.8</b>	<b>\$2,656</b>

Source: OSHPD Disclosure Reports

The table below shows Hoag’s historical costs for charity care as reported by OSHPD. Hoag’s charity care costs increased from \$6.5 million in 2007 to \$11.5 million in 2011. The average cost of charity care for the last five-year period was approximately \$9.2 million.

HOAG COST OF CHARITY CARE				
Year	Hoag Charity Care Charges (1)	Cost to Charge Ratio	Cost of Charity Care to Hoag	Percent of Total Costs Represented by Charity Care
FY 2011	\$28,827,393	39.9%	\$11,502,130	1.4%
FY 2010	\$27,103,149	37.3%	\$10,109,475	1.4%
FY 2009	\$25,740,356	38.0%	\$9,781,335	1.5%
FY 2008	\$21,907,514	38.3%	\$8,390,578	1.3%
FY 2007	\$16,594,460	39.3%	\$6,521,623	1.1%
<b>5-Year Average</b>	<b>\$24,034,574</b>		<b>\$9,261,028</b>	

Source: OSHPD Disclosure Reports

(1) Charity Care charges are based on final OSHPD figures.

Hoag has stated that the cost of management services provided to the Hoag Orthopedic Institute, out of area payments to other providers because of capitation agreements, and payments to the Quality Assurance Fees Program<sup>6</sup>, are reported to OSHPD, but the charges are not. As a result, Hoag believes the cost to charge ratios should be lower. In its written notice to the Attorney General, Hoag presents adjustments to the charity gross charges reported to OSHPD. As a result the submission reflects the following:

HOAG ADJUSTED COST OF CHARITY CARE			
Year	Adjusted Charity Care Charges	Adjusted Cost to Charge Ratio	Adjusted Cost of Charity Care to Hoag
FY 2011	\$20,220,599	35.3%	\$7,136,565
FY 2010	\$24,618,208	34.2%	\$8,413,925
FY 2009	\$25,346,214	34.6%	\$8,763,954
FY 2008	\$20,719,935	34.0%	\$7,046,375
FY 2007	\$18,140,860	34.3%	\$6,219,512
<b>5-Year Average</b>	<b>\$21,809,163</b>		<b>\$7,516,066</b>

Source: Hoag's Application to the Attorney General

<sup>6</sup> The Quality Assurance Fees Program (Welfare and Institutions Code Sections 14169.1- 14169.19) provides funds to hospitals to additionally compensate them for the amount of care they provided to Medi-Cal beneficiaries during a specific period. The funds come from two sources: (1) California hospitals that are financially secure and provide very few services to Medi-Cal beneficiaries, and (2) Federal matching funds. These funds are then “redistributed” to California hospitals that provide a high percentage of services to Medi-Cal beneficiaries and are struggling financially.

Hoag reports the following distribution of charity care by inpatient, outpatient, and emergency room charges.<sup>7</sup>

CHARITY CARE BY SERVICE FY 2007 - 2011				
	Inpatient	Outpatient	Emergency Room	Total Charges
<b>2011:</b>				
Charges	\$11,282,384	\$6,223,470	\$2,714,745	\$20,220,599
Cases/Visits	1,283	5,645	3,143	10,071
<b>2010:</b>				
Charges	\$12,736,704	\$8,389,608	\$3,491,896	\$24,618,208
Cases/Visits	1,763	6,856	3,943	12,562
<b>2009:</b>				
Charges	\$15,334,539	\$7,158,213	\$2,853,462	\$25,346,214
Cases/Visits	2,070	6,152	3,430	11,652
<b>2008:</b>				
Charges	\$12,789,509	\$5,370,116	\$2,560,310	\$20,719,935
Cases/Visits	1,165	4,297	2,640	8,102
<b>2007:</b>				
Charges	\$11,468,654	\$3,487,092	\$3,185,114	\$18,140,860
Cases/Visits	1,488	4,148	3,561	9,197

Source: Hoag

### Community Benefit Services

Hoag has consistently provided a large contribution to community benefit services. As shown in the table below, the average annual cost of community benefit services over five years has been approximately \$9.5 million per year (including in-kind services).

HOAG HOSPITAL BENEFIT SERVICES							
Community Events - Health Events	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	5-Year Average	Total
Benefits for Vulnerable Populations	\$6,379,300	\$6,045,224	\$7,236,509	\$6,252,155	\$7,999,154	\$6,782,468	\$33,912,342
Benefits for the Broader Community	\$1,616,776	\$2,224,997	\$2,274,204	\$3,809,152	\$3,472,555	\$2,679,537	\$13,397,684
<b>Total</b>	<b>\$7,996,076</b>	<b>\$8,270,221</b>	<b>\$9,510,713</b>	<b>\$10,061,307</b>	<b>\$11,471,709</b>	<b>\$9,462,005</b>	<b>\$47,310,026</b>

Source: Hoag Community Benefits Reports, 2007-2011

- Hoag's five-year average cost of community benefit services for vulnerable populations is approximately \$6.8 million per year with an increase of 25% from 2007 to 2011. Hoag's community benefit services for vulnerable populations include services and support provided to at-risk seniors, children, and to uninsured, under-insured, and indigent populations in order to facilitate access to preventive and medical care services; and

<sup>7</sup> Hoag and OSHPD do not match because of adjustments and reclassifications made by Hoag to its charity care numbers that have not been resubmitted to OSHPD.

- Hoag's five-year average cost of community benefit services to the broader community is approximately \$3.5 million per year. These services include health education, prevention and screening programs, information and referral services, and supportive services available to community residents. Hoag's cost of community benefit services for the broader community has risen from approximately \$1.6 million in 2007 to \$3.5 million in 2011.

Hoag's annual cost of community benefit services for vulnerable populations over the past five fiscal years included the following program expenditures:

HOAG HOSPITAL COST OF BENEFITS FOR VULNERABLE POPULATIONS					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Services over \$10,000 in cost</b>					
Alzheimer's Family Services Center	\$869,324	\$1,099,914	\$1,141,721	\$1,004,106	\$1,191,620
Academy of International Dance - Reading Program					\$10,000
Access California Services			\$25,000	\$45,000	
Age Well Senior Services				\$65,000	\$60,000
AIDS Services Foundation	\$25,000	\$15,000	\$30,000		
American Heart Association	\$40,000				
American Lung Association	\$20,000	\$23,277	\$12,500		
California Kids Healthcare Foundation	\$358,333	\$358,333	\$716,933	\$250,000	
California Partnerships of Healthcare Advocates		\$10,000			
Casa Teresa			\$40,000		\$25,000
CAST Program-Health Care Agency				\$150,000	
Children's Health Initiative of Orange County (One OC)					\$20,000
City of HB - Services for Frail and Homebound Seniors					\$55,000
Community Care Health Center	\$185,000				
Community Case Management	\$153,182	\$193,872	\$185,651	\$192,802	\$186,711
Community Medicine Operations	\$182,570	\$221,666	\$238,742	\$172,332	\$226,181
Community Mental Health Services	\$466,601	\$506,410	\$503,644	\$557,839	\$684,742
Community Mobile Meals Programs	\$112,286	\$10,930	\$20,958		
Costa Mesa Senior Center		\$12,654	\$22,037	\$12,857	
Council on Aging Orange County					\$10,000
Dedicated Staff	\$452,888	\$512,863	\$568,241	\$583,519	\$567,434
Dr. Riba's Health Club (One OC)					\$41,000
El Sol Academy			\$25,000		
El Sol/SOS Wellness Clinic					\$204,470
Employees for Local Community Non-profits	\$520,447	\$644,235	\$728,292	\$733,930	\$808,384
Food Donations			\$12,173		
Girls Inc					\$30,000
Healthy Smiles for Kids OC-Dental		\$33,450	\$10,000		\$25,000
Human Options			\$53,500		
Illumination Foundation			\$15,000		
Irvine Adult Day Health Services				\$10,409	\$21,665
Laguna Beach Community Clinic		\$10,000			
Laguna Beach Seniors		\$15,000			

Hoag's annual cost of community benefit services for vulnerable populations over the past five fiscal years included the following expenditures (continued):

HOAG HOSPITAL COST OF BENEFITS FOR VULNERABLE POPULATIONS					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Services over \$10,000 in cost</b>					
Latino Health Access	\$25,000	\$51,000	\$25,000		\$50,000
March of Dimes				\$10,000	\$25,000
Maternal Outreach Management Systems	\$11,000	\$11,000	\$16,500		\$20,000
Newport Community Counseling Center		\$10,000		\$10,000	\$10,000
Newport Mesa Schools Foundation				\$10,461	
Newport Mesa Unified School District (HOPE)	\$75,000	\$137,303	\$156,294	\$201,539	\$250,000
Oak View Community Center Mobile Clinic					\$30,550
Oasis Senior Center			\$500,000	\$515,000	\$1,505,000
OC Congregation Community Organizations	\$10,000				
Orange Coast Interfaith Shelter			\$20,000		
Orange County Department of Education - Medical Officer					\$100,000
Orange County Rescue Mission				\$15,000	
Orange County's United Way	\$225,001	\$115,500	\$108,767		
PADRE Foundation	\$35,000	\$28,237		\$32,606	\$87,770
Project SEARCH			\$17,324	\$20,596	\$19,940
Providence Speech and Hearing Center		\$25,000	\$50,000		\$115,000
Save our Youth (SOY)			\$17,000		
Second Harvest Food Bank		\$22,000			
Senior Transportation	\$573,934	\$423,930	\$500,700	\$443,550	\$424,185
Social Work Internship Program	\$30,000	\$30,588	\$30,930	\$23,281	\$32,255
Someone Cares Soup Kitchen		\$38,150	\$34,900	\$35,000	\$45,000
SOS Clinic	\$933,001	\$1,020,510	\$1,057,195	\$1,069,740	\$1,086,406
South County Senior Services		\$60,000	\$60,000		
Special Olympics Southern California					\$10,000
Sweet Success Express (SSEP)				\$15,000	\$10,000
Taller San Jose	\$21,000				
Trauma Intervention Program		\$10,000	\$20,000	\$10,000	
Valve Screening for Seniors			\$42,300		
WISE Place		\$10,000	\$20,000		
Women Helping Women		\$24,300			
Women's Cancer Research Foundation	\$250,000	\$100,000			
Women's Cancer Research Foundation	\$250,000	\$100,000			
YMCA Community Services	\$169,100				
Youth Employment Services	\$15,000	\$20,000	\$26,000		
<b>All Other</b>	<b>\$370,633</b>	<b>\$140,102</b>	<b>\$184,207</b>	<b>\$62,588</b>	<b>\$10,841</b>
<b>Total Community Benefit Services</b>	<b>\$6,379,300</b>	<b>\$6,045,224</b>	<b>\$7,236,509</b>	<b>\$6,252,155</b>	<b>\$7,999,154</b>
			<b>Average 2007-2011</b>		<b>\$6,782,468</b>

Source: Community Benefits Reports, 2007-2011 and Hoag

Hoag's cost of community benefit services for the broader community over the past five fiscal years included the following program expenditures:

HOAG HOSPITAL					
COST OF BENEFITS FOR THE BROADER COMMUNITY					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Services over \$10,000 in cost</b>					
211 Orange County			\$50,000		\$50,000
AIDS Services Foundation				\$25,000	
Alzheimer's Association	\$55,000	\$65,000		\$50,000	\$50,000
American Diabetes Association				\$20,000	\$25,000
American Heart Association					\$32,500
American Lung Association				\$25,000	\$25,000
Arthritis Foundation				\$25,000	\$25,000
Babyline	\$130,700	\$126,800			
Cancer Center Breast Care					\$100,000
Cancer Center Education and Support Groups		\$220,656	\$261,004	\$158,781	
Cancer Center Social Work Internship					\$11,451
CHOC General Grants	\$273,000			\$285,000	
CHOC Pediatric Diabetes Services at the Allen Diabetes Cntr.				\$454,056	\$645,175
Clinical Care Extender Program		\$163,541	\$190,602	\$168,489	\$171,072
Coalition of OC Community Clinics			\$50,000	\$21,000	
Community Disaster Preparedness Planning	\$211,051	\$101,150	\$45,400	\$61,869	\$64,514
Community Education and Outreach					\$415,770
Corona Del Mar Chamber of Commerce		\$10,000	\$10,000	\$10,000	\$10,000
Corporate Communications Community Outreach		\$87,243	\$240,937	\$261,464	
Diabetes Education and Support Groups				\$25,368	
Epilepsy Alliance		\$10,000		\$20,000	\$25,000
Epilepsy Support Network				\$25,000	\$25,000
ETOH/Psych/Ancillary Patient Transfer Program		\$272,336	\$186,445	\$248,860	\$232,731
Families Forward					\$16,190
First Aid Stations at Community Events		\$85,000			
Flu Immunization Clinic Expenses	\$186,386	\$271,568	\$161,233	\$192,188	\$264,185
Food Donations				\$13,945	\$14,190
Freedom from Smoking Program					\$14,768
Fund Physician for CAST Program	\$150,000				
Girls Inc.		\$10,274	\$15,050	\$15,000	
Goodwill of Orange County	\$10,000	\$60,000	\$60,000	\$60,000	\$60,000
Health Funders Partnership	\$50,000	\$25,000	\$20,000	\$35,000	\$10,000
Health Ministries	\$84,006	\$190,326	\$197,676	\$157,013	\$189,137
Hospital Case Management Internships		\$35,930	\$36,527	\$24,200	\$24,200
Human Options				\$25,000	\$10,000
Immunizations for Inpatients - Influenza and Pneumonia	\$144,929				
Invest in Children Fund (One OC)					\$10,000

Hoag's cost of community benefit services for the broader community over the past five fiscal years included the following program expenditures (continued):

HOAG HOSPITAL					
COST OF BENEFITS FOR THE BROADER COMMUNITY					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
<b>Services over \$10,000 in cost</b>					
Irvine Children's Fund				\$12,000	\$20,000
Irvine Community Alliance Fund				\$24,000	\$25,000
Juvenile Diabetes Research Foundation	\$10,135	\$25,000	\$12,000	\$12,000	\$15,000
Kenya Medical Mission		\$22,983	\$59,746	\$24,000	\$57,877
Laboratory Internships	\$66,000	\$58,800	\$61,840	\$64,880	\$60,600
Madres Militares Support Group		\$10,000			
March of Dimes	\$50,000	\$10,000			
Mardan Foundation of Educational Therapy				\$10,000	
Medical Education - Grand Rounds			\$26,146	\$26,400	
National Parkinson Foundation - OC Chapter				\$12,000	
Nutrition Services - Community Presentations	\$11,662				
OB Education		\$10,602	\$140,541	\$131,889	\$21,776
OC Health Care Agency - CAST Program		\$151,786			
Orange Coast College Foundation				\$15,000	
Orange County Council on Aging	\$10,000	\$10,000			
Orange County Health Needs Assessment (OCHNA)	\$50,000			\$80,224	\$86,019
Orange County Human Relations Council					\$25,400
Orange County United Way				\$101,775	\$62,459
Parkinsons Community Support Programs				\$37,700	\$70,060
Pastoral Care Education and Support Groups	\$33,860	\$36,000	\$43,345	\$32,953	\$49,860
Paul Merage School of Business - UCI			\$200,000	\$110,000	\$100,000
Pharmacy Student Clinical Rotations		\$33,000	\$16,500	\$16,500	\$16,500
Physical Therapy Internships		\$21,600	\$22,800	\$128,000	\$90,000
Project Sun Safe		\$20,958	\$22,749	\$26,499	
Project Wipeout			\$50,722	\$107,155	\$68,792
Public Health Foundation Enterprise		\$30,000			
Saint Joachim Catholic Church		\$10,000			\$10,000
Stroke Education Outreach				\$70,419	
The Center Orange County			\$25,000		
The UCI Foundation	\$25,000				
UCI Institute of Memory Impairments and Neurological Disorders				\$10,000	\$10,000
VCOC - Irvine Programs				\$29,000	
Women Helping Women				\$10,000	
YMCA Community Services				\$150,000	\$160,000
Youth Employment Services					\$30,000
<b>All Other</b>	<b>\$65,047</b>	<b>\$39,444</b>	<b>\$67,941</b>	<b>\$159,525</b>	<b>\$2,329</b>
<b>Total Community Benefit Services</b>	<b>\$1,616,776</b>	<b>\$2,224,997</b>	<b>\$2,274,204</b>	<b>\$3,809,152</b>	<b>\$3,472,555</b>
			<b>Average 2007-2011</b>		<b>\$13,397,684</b>

Source: Community Benefits Reports, 2007-2011 and Hoag

Hoag's community benefit services have supported many programs for the community including:

- **Community Case Management:** Provides assistance to low-income residents by helping them with access to local healthcare services. Bilingual case managers work with the Share Our Selves Medical and Dental Clinic to assess each patient's eligibility for funding resources. It is an educational process that provides an increased awareness of the services available, and to offer preventive health tips. In FY 2011, Hoag's cost was \$186,711;
- **Mental Health and Psychotherapy Program:** Provides free bilingual bicultural services to people who are mainly low-income and uninsured. During FY 2011, the program employed seven full-time bilingual Master's prepared social workers. In FY 2011, Hoag's cost was \$684,742;
- **Health Ministries:** Administered by the Faith Community Nurse to promote spiritually-based wellness and is open to all faith traditions. The purpose of the program is to support the mental, physical and spiritual health needs of those being served. Each Faith Community Nurse develops educational programs and interventions specific to the unique needs of their congregation as they seek a health-affirming balance between the mind, body, and spirit. In FY 2011, Hoag's cost was \$189,137;
- **Project Wipeout:** Educates and raises awareness on injury prevention at the beach, particularly neck and spinal cord injuries, by distributing safety information locally and nationwide. In FY 2011, Hoag's costs was \$68,792;
- **Share Our Selves Clinic:** Since 1984, Hoag has had a unique partnership with Share Our Selves to care for the whole person through comprehensive services, including medical and dental care, social services, behavioral health, and seasonal outreach programs. For FY 2011, Hoag and Share Our Selves provided care to 6,713 low-income, uninsured and/or underinsured individuals during 18,644 provider encounters for a total cost to Hoag of \$1,106,806; and
- **Obstetrics Education:** Supports families through pregnancy and parenthood by providing educational classes and support services. It provides a multitude of educational and support programs at a minimal cost. In FY 2011, Hoag's cost was \$21,776.

## PROFILE OF ST. JOSEPH HEALTH SYSTEM

St. Joseph Health is a ministry of The Sisters of St. Joseph of Orange, who trace their roots back to 17th Century France. In 1912, at the invitation of the local bishop, a small contingent of the Sisters of St. Joseph left to establish a school in Eureka, California. A few years later in 1918, the great influenza epidemic broke out and caused the Sisters to temporarily give up their education efforts in order to care for the sick in their homes. The Sisters soon realized that the small community desperately needed a hospital. Therefore, in 1920, the Sisters opened St. Joseph Hospital of Eureka, with 28 beds, and their new healthcare ministry began.

Today, SJHS is an integrated healthcare delivery system that is organized into three regions: Northern California, Southern California, and West Texas/Eastern New Mexico. SJHS includes 15 acute care hospitals, home health agencies, hospice care, outpatient services, skilled nursing facilities, community clinics, and physician organizations.

SJHS operates the following hospitals in the Southern California region: St. Mary Medical Center, St. Jude Medical Center, St. Joseph Hospital-Orange, and Mission Hospital Regional Medical Center, that operates two general acute care hospitals on the same license. Collectively, they are referred to herein as “SJHS SC Hospitals.”

**St. Mary Medical Center**, located in Apple Valley, first opened in 1956 as a 29-bed acute and maternity care facility. Today, the hospital is a 206-bed acute care facility, staffed with over 300 physicians, and offers a wide variety of services including: 24-hour emergency services, pediatric care, cardiac services, and wellness and prevention programs such as diabetes education. Additionally, it offers the only open heart surgery program in the High Desert.

**St. Jude Medical Center** has been in operation for over 50 years in Fullerton. It is an acute care facility that is currently licensed for 384 beds and staffed with approximately 700 physicians. The hospital offers medical services across a wide range of specialties and subspecialties, including a breast center, cancer center, heart center, maternity care, orthopedics, stroke care, and outpatient rehabilitation services.

**St. Joseph Hospital of Orange** opened in September of 1929. It currently has 525 licensed beds, employs approximately 3,800 individuals, and has a medical staff consisting of 971 physicians. The hospital offers more than 75 specialty programs including: bariatric surgery, behavioral health, maternity care, orthopedics, the Nasal and Sinus Center, the Heart and Vascular Center, the Center for Cancer Prevention and Treatment, and the Kidney Dialysis Center.

**Mission Hospital Regional Medical Center** operates two general acute care hospitals. The Mission Viejo hospital first opened in 1971, and it now has 345 licensed beds. The Laguna Beach hospital was acquired in 2009, and it has 207 licensed beds. Both hospitals provide a wide range of patient services and have several specialty centers that include: the Regional Trauma Center, Brain Injury Center, Heart Center, Spine Center, Stroke Center, Women’s Center, and the Imaging Center.

## St. Joseph Health System Key Statistics

Key statistics include the following:

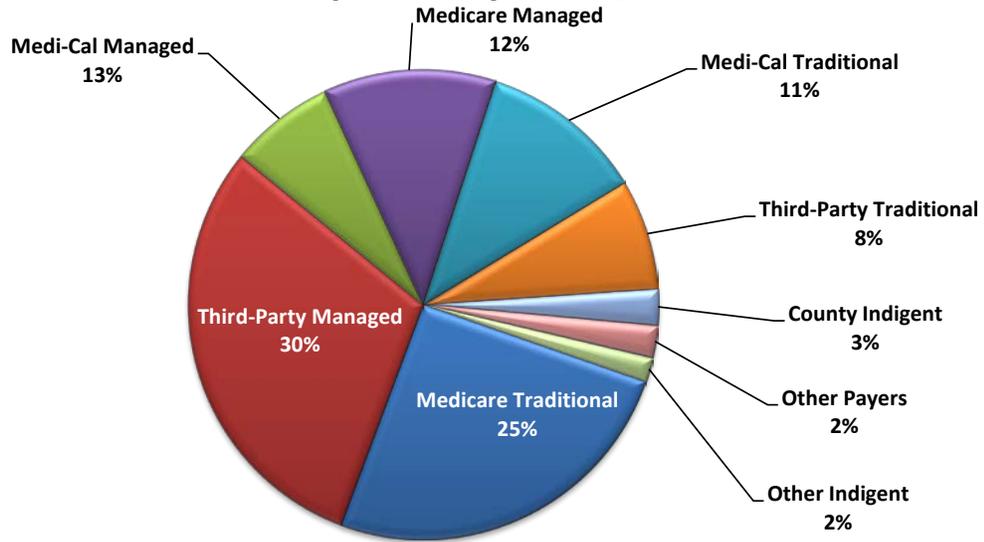
- In FY 2011, SJHS had approximately \$4.2 billion in net revenue, an increase of 5% from \$4.0 billion in 2010;
- In 2011, SJHS's California hospitals had approximately \$294.7 million in combined net income, up 16% from 2010;
- SJHS SC Hospitals had approximately \$230 million in net income in 2011, up 15% from 2010;
- In 2011, the SJHS SC Hospitals operated a total of 1,663 licensed beds with an average occupancy rate of 53%, and an average daily census of 874 patients;
- From 2010 to 2011, total inpatient discharges decreased 4%, from 78,132 to 75,320; and
- Based on inpatient discharges in 2011, the combined Medicare and Medi-Cal percentage was 32% and 16%, respectively.

2011 SJHS SOUTHERN CALIFORNIA HOSPITALS PAYER MIX COMPARISON										
	St. Jude		St. Joseph - Orange		St. Mary		Mission Hospital		SJHS SOUTHERN CA	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	955	5.9%	2,370	11.7%	4,034	24.4%	1,181	5.3%	8,540	9.8%
Medi-Cal Managed Care	0	0.0%	1,074	5.3%	3,080	18.7%	1,295	5.8%	5,449	6.3%
<b>Medi-Cal Subtotal</b>	<b>955</b>	<b>5.9%</b>	<b>3,444</b>	<b>17.0%</b>	<b>7,114</b>	<b>43.1%</b>	<b>2,476</b>	<b>11.1%</b>	<b>13,989</b>	<b>16.1%</b>
Medicare Traditional	5,424	33.3%	4,837	23.9%	1,894	11.5%	6,986	31.3%	19,141	22.0%
Medicare Managed Care	3,038	18.7%	2,096	10.3%	2,006	12.2%	1,785	8.0%	8,925	10.2%
<b>Medicare Subtotal</b>	<b>8,462</b>	<b>52.0%</b>	<b>6,933</b>	<b>34.2%</b>	<b>3,900</b>	<b>23.6%</b>	<b>8,771</b>	<b>39.4%</b>	<b>28,066</b>	<b>32.2%</b>
Third-Party Managed Care	5,737	35.3%	5,007	24.7%	2,898	17.6%	9,116	40.9%	22,758	26.1%
<b>Third-Party Managed Care Subtotal</b>	<b>5,737</b>	<b>35.3%</b>	<b>5,007</b>	<b>24.7%</b>	<b>2,898</b>	<b>17.6%</b>	<b>9,116</b>	<b>40.9%</b>	<b>22,758</b>	<b>26.1%</b>
Third Party Traditional	239	1.5%	3,954	19.5%	1,376	8.3%	155	0.7%	5,724	6.6%
Other Payers	412	2.5%	50	0.2%	638	3.9%	547	2.5%	1,647	1.9%
Other Indigent	57	0.4%	410	2.0%	343	2.1%	439	2.0%	1,249	1.4%
County Indigent	410	2.5%	462	2.3%	234	1.4%	781	3.5%	1,887	2.2%
<b>Other Subtotal</b>	<b>1,118</b>	<b>6.9%</b>	<b>4,876</b>	<b>24.1%</b>	<b>2,591</b>	<b>15.7%</b>	<b>1,922</b>	<b>8.6%</b>	<b>10,507</b>	<b>12.1%</b>
<b>Total</b>	<b>16,272</b>	<b>100%</b>	<b>20,260</b>	<b>100%</b>	<b>16,503</b>	<b>100%</b>	<b>22,285</b>	<b>100%</b>	<b>75,320</b>	<b>86%</b>

Excludes normal new births

Source: OSHPD Quarterly Reports, 2011

## SJHS SC Hospitals' Payer Mix, 2011



**Total Discharges = 75,320**

### *Quality & Awards*

All SJHS hospitals in California have received accreditation as indicated below:

Hospital	Hospital Accreditation	Effective Date
St. Joseph Hospital - Orange	The Joint Commission	7/16/2011
St. Jude Medical Center	The Joint Commission	4/21/2012
Mission Hospital Regional Medical Center	The Joint Commission	5/5/2012
St. Mary Medical Center	Health Facilities Accreditation Program	current
St. Joseph Hospital - Eureka	Health Facilities Accreditation Program	current
Redwood Memorial Hospital	Health Facilities Accreditation Program	current
Santa Rosa Memorial Hospital	The Joint Commission	6/18/2011
Petaluma Valley Hospital	The Joint Commission	5/18/2011
Queen of the Valley Medical Center	The Joint Commission	9/2/2011

Source: The Joint Commission Accreditation Program and the Health Facilities Accreditation Program

Additionally, Healthgrades has awarded the SJHS SC Hospitals with a variety of excellence awards, as outlined below:

- St. Jude Medical Center:
  - Stroke Care Excellence Award – 2013
  - Patient Safety Excellence Award – 2012
  - Distinguished Hospital Award for Clinical Excellence – 2010
- St. Joseph Medical Center
  - General Surgery Excellence Award – 2013, 2012
  - Joint Replacement Excellence Award – 2013, 2012
  - Cardiac Surgery Excellence Award – 2012, 2011
  - Gastrointestinal Care Excellence Award – 2012
  - Kidney Transplant Excellence Award – 2012
  - Gastrointestinal Surgery Excellence Award – 2011
  - Outstanding Patient Experience Award – 2011
- St. Mary Medical Center
  - Patient Safety Excellence Award – 2012
- Mission Hospital Regional Medical Center – Mission Viejo
  - Coronary Interventional Excellence Award 2013
  - Neurosurgery Excellence Award – 2013, 2012
  - Pulmonary Excellence Award – 2013, 2012
- Mission Hospital Regional Medical Center – Laguna Beach
  - Coronary Interventional Excellence Award – 2013
  - Neurosurgery Excellence Award – 2013, 2012
  - Pulmonary Excellence Award – 2013, 2012

## *Community Benefit Services*

In 1986, SJHS formed the St. Joseph Health System Foundation (“SJHS Foundation”) with a mission to provide funding and assistance for improving the health and wellbeing of low-income individuals in the surrounding communities. As part of the vision, values, and mission of the SJHS Foundation, all SJHS hospitals annually contribute 10% of their net income to the SJH Foundation in order to help support its outreach efforts. The SJHS Foundation distributes the contributions as outlined below:

- 75% goes towards “care for the poor” funds, which are specified within each of the local ministries;
- 17.5% goes towards grant initiatives of the SJHS Foundation, such as the Wellness and Prevention Initiative, Community Clinics Initiative, Community Building Initiative, the Disaster Relief Initiative, and the Emergency Food and Shelter Initiative; and
- 7.5% goes towards endowment.

The SJHS SC Hospitals have invested a portion of their net income to support residents in the local communities through various programs and services.

- Camino Health Center: Mission Hospital Regional Medical Center supports and sponsors the Camino Health Center, a fully licensed, community-based health center that provides medical and dental care through its medical clinic, mobile medical vans, pediatric dental clinic, and Women, Infants, and Children (WIC) program. In FY 2011, the Camino Health Center conducted 113,404 visits and served 3,447 patients from the cities of San Clemente, Dana Point, and San Juan Capistrano;
- La Amistad de Jose Family Health Center: St. Joseph Medical Center supports La Amistad de Jose Family Health Center in Orange, California. La Amistad is a fixed-site health center that serves economically disadvantaged individuals who are uninsured. It provides low-cost medical and dental services for individuals of all ages, along with medications, diagnostic tests, and health education. It records approximately 14,000 visits annually;
- Puente a la Salud Mobile Community Clinics: St. Joseph Medical Center provides support for the mobile clinics, which were implemented in 1996. The mobile clinics provide healthcare services to the large population of seasonal and migrant workers and their families, offering services at community centers, schools, and other sites throughout Orange County. Through the use of four mobile units, Puente a la Salud is able to provide basic medical, dental, and vision care including health promotion and prevention, diagnosis and treatment, health education, first aid, and child safety. The clinic reports approximately 7,000 medical, dental, and vision visits annually;

- St. Jude Neighborhood Health Center: The Center offers primary medical and dental care for adults and children, including counseling and health classes. Free pregnancy testing and prenatal care are also available and patients then deliver their babies at St. Jude Hospital;
- St. Jude Mobile Family Health Clinic: The clinics provide adult primary, prenatal, and pediatric care at locations in Brea and Placentia. In FY 2011, as part of the efforts to expand access to primary and specialty care for low-income families, the affiliated St. Jude Hospital primary care clinics served 2,828 uninsured medical patients; and
- In FY 2012, St. Mary Medical Center invested approximately \$3.4 in community clinic programs providing services to 3,638 low income and uninsured area patients totaling 42,439 visits across all programs. Its community benefit services programs expand access to care in the community it serves where 50.4% of residents (compared with a national level of 37.3%) reported experiencing difficulties or delays of some kind in receiving healthcare. Additionally, St. Mary Medical Center assisted in the opening of two community clinics (by partner organizations) including the area's first Federally Qualified Health Center. The two clinics are serving upwards of 400 low-income patients per month.



## St. Joseph Health System's Southern California Hospitals

SOUTHERN CALIFORNIA HOSPITALS OWNED BY ST. JOSEPH HEALTH SYSTEM								
	Mission Hospital		St. Joseph Hospital - Orange		St. Jude Medical Center		St. Mary Medical Center	
	General Acute		General Acute		General Acute		General Acute	
	2010	2011	2010	2011	2010	2011*	2010	2011
City	Mission Viejo / Laguna Beach		Orange		Fullerton		Apple Valley	
Licensed Beds	552	552	525	525	384	384	186	202
Patient Days	92,325	94,604	82,259	77,484	87,725	82,132	61,358	64,800
Discharges <sup>1</sup>	22,811	22,285	21,218	20,260	17,672	16,272	16,431	16,503
ALOS	4.0	4.2	3.9	3.8	5.0	5.0	3.7	3.9
Average Daily Census	253	259	225	212	240	225	168	178
Occupancy	45.8%	47.0%	42.9%	40.4%	62.6%	58.6%	90.4%	87.9%
ED Visits	53,163	50,713	55,998	56,126	53,744	68,918	77,662	77,200
Inpatient Surgeries	5,271	5,001	7,509	6,797	9,090	4,304	3,631	4,434
Outpatient Surgeries	4,315	4,207	2,642	2,820	4,833	4,071	5,307	6,531
Births	3,182	3,094	5,064	5,055	2,206	2,145	2,881	2,713
<b>Payer Mix (Based on Discharges):</b>								
Traditional Medicare	30.1%	31.3%	25.6%	23.9%	33.6%	33.3%	29.7%	24.4%
Managed Medicare	7.5%	8.0%	9.6%	10.3%	17.9%	18.7%	13.7%	18.7%
Traditional Medi-Cal	5.9%	5.3%	10.8%	11.7%	6.5%	5.9%	18.1%	11.5%
Managed Medi-Cal	6.0%	5.8%	4.7%	5.3%	0.0%	0.0%	10.9%	12.2%
County Indigent	3.0%	3.5%	2.1%	2.3%	2.4%	2.5%	1.7%	1.4%
Traditional Third-Party	4.4%	0.7%	20.6%	19.5%	1.5%	1.5%	7.2%	8.3%
Managed Third-Party	40.1%	40.9%	24.7%	24.7%	35.5%	35.3%	15.7%	17.6%
Other Indigent	0.7%	2.0%	1.6%	2.0%	0.1%	0.4%	1.2%	2.1%
Other	2.4%	2.5%	0.3%	0.2%	2.5%	2.5%	1.9%	3.9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Income Statement:</b>								
Gross Patient Revenue	\$1,562,460,665	\$1,692,303,974	\$1,946,979,141	\$1,983,343,355	\$1,552,193,158	\$1,625,078,958	\$968,628,848	\$1,084,554,978
Net Pt. Revenue	\$428,466,598	\$454,259,632	\$515,625,303	\$560,354,777	\$444,683,181	\$466,898,822	\$237,078,206	\$276,813,993
Other Operating Revenue	\$11,679,464	\$12,851,660	\$82,111,220	\$87,739,508	\$17,687,367	\$16,002,902	\$1,747,060	\$1,510,945
Total Operating Revenue	\$440,146,062	\$467,111,292	\$597,736,523	\$648,094,285	\$462,370,548	\$482,901,724	\$238,825,266	\$278,324,938
Total Operating Expenses	\$396,276,461	\$436,047,816	\$570,659,400	\$625,216,004	\$418,289,463	\$449,690,234	\$217,703,148	\$241,215,202
Net From Operations	\$43,869,601	\$31,063,476	\$27,077,123	\$22,878,281	\$44,081,085	\$33,211,490	\$21,122,118	\$37,109,736
Non-operating Revenue	\$28,065,301	\$32,868,499	\$43,462,353	\$50,779,992	\$31,205,717	\$51,412,651	\$5,183,022	\$10,228,459
Non-operating Expenses	\$14,295,169	\$20,767,762	\$28,612,256	\$18,063,081	\$0	\$0	\$925,628	\$820,831
Provision for Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net Income</b>	<b>\$57,639,733</b>	<b>\$43,164,213</b>	<b>\$41,927,220</b>	<b>\$55,595,192</b>	<b>\$75,286,802</b>	<b>\$84,624,141</b>	<b>\$25,379,512</b>	<b>\$46,517,364</b>
<b>Other Financial:</b>								
Charity Care Charges	\$25,599,123	\$30,763,996	\$39,134,326	\$41,710,597	\$29,796,884	\$27,525,945	\$27,645,594	\$43,598,887
Bad Debt Charges	\$29,344,205	\$20,208,779	\$32,228,954	\$13,123,545	\$23,190,546	\$31,414,355	\$19,796,033	\$9,792,594
<b>Total Uncompensated Care</b>	<b>\$54,943,328</b>	<b>\$50,972,775</b>	<b>\$71,363,280</b>	<b>\$54,834,142</b>	<b>\$52,987,430</b>	<b>\$58,940,300</b>	<b>\$47,441,627</b>	<b>\$53,391,481</b>
Cost to Charge Ratio	24.6%	25.0%	25.1%	27.1%	25.8%	26.7%	22.3%	22.1%
Cost of Charity	\$6,301,180	\$7,693,183	\$9,819,830	\$11,303,371	\$7,690,212	\$7,345,891	\$6,163,593	\$9,636,062
Uncompensated Care as % of Chgs.	3.5%	3.0%	3.7%	2.8%	3.4%	3.6%	4.9%	4.9%
State of Calif. Uncompensated Care <sup>2</sup>	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Fiscal Year Ending	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011

\* Unaudited data

<sup>1</sup> Excludes normal new births

<sup>2</sup> Stated wide average for hospitals

Source: OSHPD Disclosure Reports FY 2010-2011

- In FY 2011, the total number of discharges for the SJHS SC Hospitals was 75,320;
- In FY 2011, the total cost of charity care for the SJHS SC Hospitals was \$35,978,507, up 20% from FY 2010; and

- The SJHS SC Hospitals had a combined licensed bed total of 1,663 and a total of 252,957 emergency department visits for FY 2011.

## ANALYSIS OF HOAG'S SERVICE AREA

### *Hoag's Service Area Definition*

Hoag's service area is composed of 45 ZIP Codes, from which approximately 81% of the Hoag's discharges originated in 2011. Nearly 50% of the Hoag's discharges were from the top eleven ZIP Codes, located in Newport Beach, Huntington Beach, Irvine, Costa Mesa, and Fountain Valley. Hoag's market share in the service area was nearly 17%.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2011						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
92627	Costa Mesa	2,471	9.3%	9.3%	4,920	50.2%
92646	Huntington Beach	1,676	6.3%	15.6%	5,016	33.4%
92626	Costa Mesa	1,656	6.2%	21.8%	4,085	40.5%
92660	Newport Beach	1,516	5.7%	27.5%	2,614	58.0%
92648	Huntington Beach	1,098	4.1%	31.7%	3,831	28.7%
92663	Newport Beach	913	3.4%	35.1%	1,516	60.2%
92647	Huntington Beach	859	3.2%	38.3%	5,341	16.1%
92620	Irvine	749	2.8%	41.1%	2,373	31.6%
92649	Huntington Beach	699	2.6%	43.8%	2,965	23.6%
92612	Irvine	679	2.6%	46.3%	1,586	42.8%
92708	Fountain Valley	650	2.4%	48.8%	5,303	12.3%
92604	Irvine	615	2.3%	51.1%	1,716	35.8%
92625	Corona Del Mar	604	2.3%	53.4%	968	62.4%
92614	Irvine	489	1.8%	55.2%	1,299	37.6%
92683	Westminster	440	1.7%	56.9%	7,913	5.6%
92603	Irvine	400	1.5%	58.4%	920	43.5%
92656	Aliso Viejo	374	1.4%	59.8%	3,096	12.1%
92618	Irvine	350	1.3%	61.1%	993	35.2%
92606	Irvine	349	1.3%	62.4%	1,096	31.8%
92602	Irvine	333	1.3%	63.7%	1,069	31.2%
92782	Tustin	326	1.2%	64.9%	1,327	24.6%
92657	Newport Coast	318	1.2%	66.1%	606	52.5%
92630	Lake Forest	315	1.2%	67.3%	4,739	6.6%
92704	Santa Ana	288	1.1%	68.3%	6,674	4.3%
92780	Tustin	287	1.1%	69.4%	4,344	6.6%
92677	Laguna Niguel	280	1.1%	70.5%	4,983	5.6%
92651	Laguna Beach	265	1.0%	71.5%	1,958	13.5%
92637	Laguna Woods	220	0.8%	72.3%	4,323	5.1%
92707	Santa Ana	206	0.8%	73.1%	4,680	4.4%
92705	Santa Ana	204	0.8%	73.8%	3,533	5.8%
92661	Newport Beach	184	0.7%	74.5%	260	70.8%
92692	Mission Viejo	171	0.6%	75.2%	3,914	4.4%
92653	Laguna Hills	168	0.6%	75.8%	2,784	6.0%
92869	Orange	167	0.6%	76.4%	2,901	5.8%
92691	Mission Viejo	153	0.6%	77.0%	4,352	3.5%
92662	Newport Beach	145	0.5%	77.6%	227	63.9%
92688	Rancho Santa Març	142	0.5%	78.1%	2,922	4.9%
90740	Seal Beach	137	0.5%	78.6%	3,269	4.2%
92679	Trabuco Canyon	117	0.4%	79.0%	1,775	6.6%
90803	Long Beach	117	0.4%	79.5%	2,826	4.1%
92629	Dana Point	114	0.4%	79.9%	2,568	4.4%
92867	Orange	110	0.4%	80.3%	3,050	3.6%
92617	Irvine	87	0.3%	80.7%	271	32.1%
92861	Villa Park	45	0.2%	80.8%	528	8.5%
92655	Midway City	31	0.1%	80.9%	917	3.4%
<b>Subtotal</b>		<b>21,517</b>	<b>80.9%</b>	<b>80.9%</b>	<b>128,351</b>	<b>16.8%</b>
Other ZIPs		5,065	19.1%	100.0%		
<b>Total</b>		<b>26,582</b>	<b>100.0%</b>			

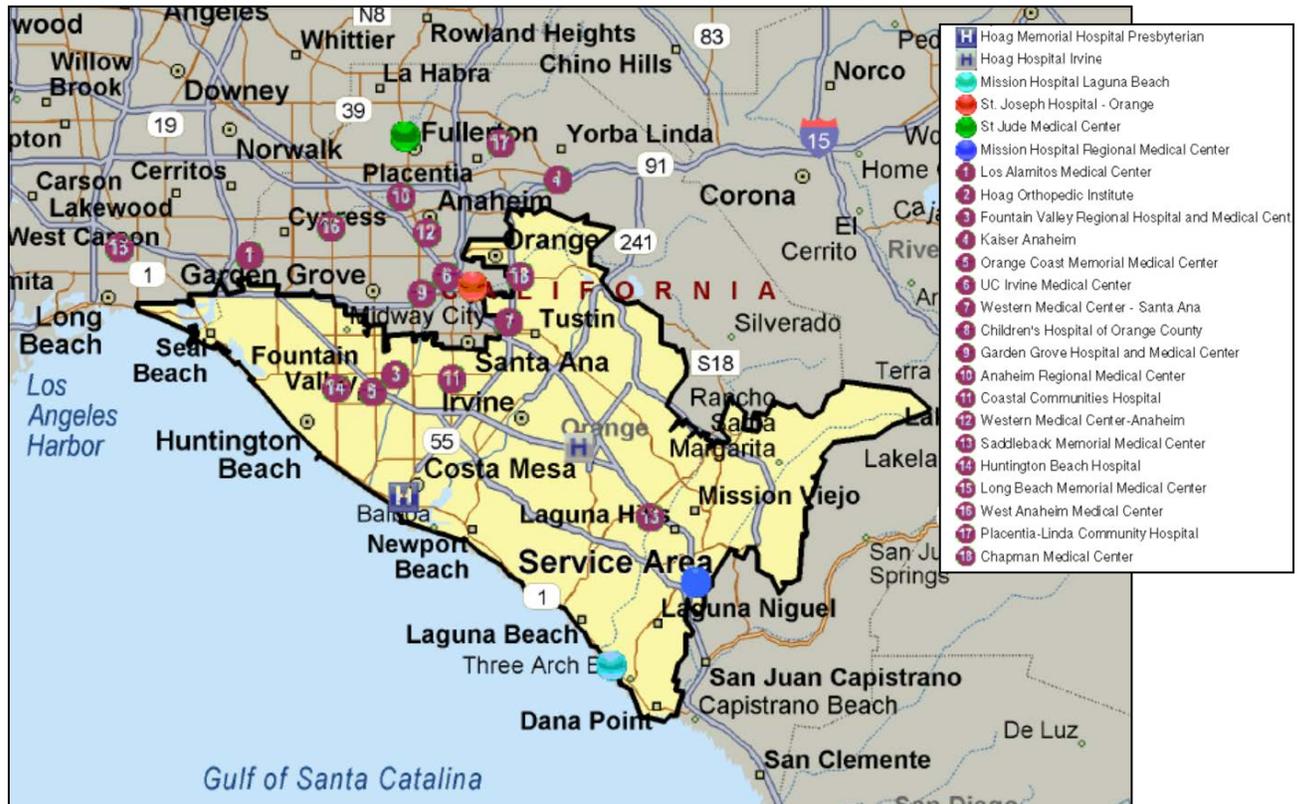
Note: Excludes normal new births

Source: OSHPD Patient Discharge Database

## Service Area Map

Hoag's service area, with approximately 1.6 million residents, includes the communities of Aliso Viejo, Corona Del Mar, Costa Mesa, Dana Point, Fountain Valley, Huntington Beach, Irvine, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Long Beach, Midway City, Mission Viejo, Newport Beach, Newport Coast, Orange, Rancho Santa Margarita, Santa Ana, Seal Beach, Trabuco Canyon, Tustin, Villa Park and Westminster.

There are nine other hospitals located within Hoag's service area, including Mission Hospital Regional Medical Center locations in Laguna Beach and Mission Viejo.



## Demographic Profile

Hoag's service area population is projected to grow by approximately 2.4% over the next five years. This is comparable to the expected growth rate for Orange County (2.2%) but lower than the statewide growth rate (3.5%);

HOAG SERVICE AREA POPULATION STATISTICS: 2012-2017			
	2012	2017	
	Estimate	Projection	% Change
Total Populations	1,626,337	1,665,568	2.4%
Households	580,839	595,773	2.6%
Percentage Female	50.9%	50.9%	

Source: Applied Geographic Solutions

The average age of the population in Hoag's service area is 39.0 years. The statewide average is slightly lower (37.0 years). The percentage of adults over the age of 65 is expected to grow by approximately 10% between 2012 and 2017. This is the largest percent increase of any age group. The population of children between the ages 0-14 and adults between the ages 15-44 is expected to increase overall but decrease slightly as a percentage of the total population.

HOAG SERVICE AREA POPULATION AGE DISTRIBUTION: 2012-2017				
	2012 Estimate		2017 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	289,502	17.8%	288,258	17.3%
Age 15-44	672,422	41.3%	674,054	40.5%
Age 45-64	443,651	27.3%	461,055	27.7%
Age 65+	220,763	13.6%	242,201	14.5%
<b>Total</b>	<b>1,626,337</b>	<b>100%</b>	<b>1,665,568</b>	<b>100%</b>
Female 15-44	333,826	20.5%	334,799	20.1%
Median Age	39.0		40.0	

Source: Applied Geographic Solutions

Nearly 85% of the service area population is made up of Whites and Asian/Pacific Islanders. Approximately 75% of the service area is of Non-Hispanic ethnicity. This is considerably higher when compared to the Orange County and California Non-Hispanic ethnic population of 62% and 66%, respectively.

HOAG SERVICE AREA POPULATION RACE/ETHNICITY: 2012-2017		
	2012	2017
White	65.8%	65.4%
Black	1.4%	1.5%
American Indian or Alaska Native	0.5%	0.5%
Asian or Pacific Islander	17.7%	18.3%
Some Other Race	10.3%	10.1%
Two or More Races	4.3%	4.3%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Hispanic Ethnicity	25.0%	24.7%
Non Hispanic or Latino	75.0%	75.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Applied Geographic Solutions

The average household income in the service area is \$116,963. This is 9% above the County average of \$106,783, and 24% above the statewide average of \$89,159. Projections anticipate that the percentage of higher income households in Hoag's service area will grow at a faster rate than those in the County and statewide.

HOAG SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2012-2017												
	2012 Estimate						2017 Projection					
	HOAG Service Area		Orange County		California		HOAG Service Area		Orange County		California	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
\$0 - \$15,000	36,631	6.3%	69,817	7.0%	1,328,619	10.5%	30,175	5.1%	57,833	5.7%	1,122,497	8.6%
\$15,000 - \$24,999	36,148	6.2%	70,148	7.0%	1,194,662	9.4%	31,888	5.4%	62,653	6.1%	1,091,840	8.3%
\$25,000 - \$34,999	37,206	6.4%	73,797	7.4%	1,127,499	8.9%	33,372	5.6%	66,880	6.5%	1,036,807	7.9%
\$35,000 - \$49,999	58,329	10.0%	110,461	11.1%	1,572,562	12.4%	52,317	8.8%	100,731	9.8%	1,452,863	11.1%
\$50,000 - \$74,999	95,846	16.5%	170,396	17.1%	2,238,762	17.7%	79,716	13.4%	143,331	14.0%	2,065,876	15.8%
\$75,000 - \$99,999	80,429	13.9%	139,322	14.0%	1,623,847	12.8%	74,634	12.5%	130,300	12.7%	1,765,922	13.5%
\$100,000 - \$149,999	120,459	20.7%	195,957	19.6%	2,008,744	15.9%	146,916	24.7%	243,797	23.8%	2,550,031	19.5%
\$150,000 +	115,790	19.9%	169,012	16.9%	1,553,159	12.3%	146,756	24.6%	217,889	21.3%	2,006,510	15.3%
<b>Total</b>	<b>580,839</b>	<b>100%</b>	<b>998,910</b>	<b>100%</b>	<b>12,647,854</b>	<b>100%</b>	<b>595,773</b>	<b>100%</b>	<b>1,023,414</b>	<b>100%</b>	<b>13,092,346</b>	<b>100%</b>
Average Household Income	\$116,963		\$106,783		\$89,159		\$135,914		\$124,348		\$102,639	

Source: Applied Geographic Solutions

## *Payer/Insurance Mix in the Service Area*

Approximately 11% of the population in Hoag’s service area is eligible for Medi-Cal. In Orange County, 14% of the population is eligible for Medi-Cal. In California, 20% of the population is eligible for Medi-Cal. The percentage of persons eligible for Medi-Cal for ZIP codes within Hoag’s service area ranges from 1% to over 34%. The percentage of the population that is eligible for Medi-Cal in Newport Beach ZIP codes ranges from 1.6% to 4.3%. The number and percentage of the population that is eligible for Medi-Cal is expected to grow as a result of the 2010 Federal Patient Protection and Affordable Care Act.

SERVICE AREA MEDI-CAL ELIGIBLES 2012				
ZIP Codes	City	Eligibles	Population	Percentage
90740	Seal Beach	849	23,972	3.5%
90803	Long Beach	1,090	33,077	3.3%
92602	Irvine	1,257	23,117	5.4%
92603	Irvine	651	20,074	3.2%
92604	Irvine	1,943	27,759	7.0%
92606	Irvine	1,686	21,662	7.8%
92612	Irvine	1,615	28,771	5.6%
92614	Irvine	1,664	25,167	6.6%
92617	Irvine	272	14,432	1.9%
92618	Irvine	744	16,593	4.5%
92620	Irvine	2,667	41,798	6.4%
92625	Corona del Mar	205	11,959	1.7%
92626	Costa Mesa	5,547	49,235	11.3%
92627	Costa Mesa	10,883	62,955	17.3%
92629	Dana Point	1,542	26,223	5.9%
92630	Lake Forest	6,180	61,321	10.1%
92637	Laguna Woods	822	16,163	5.1%
92646	Huntington Beach	2,778	56,663	4.9%
92647	Huntington Beach	8,804	57,946	15.2%
92648	Huntington Beach	3,057	44,765	6.8%
92649	Huntington Beach	1,694	32,988	5.1%
92651	Laguna Beach	679	24,111	2.8%
92653	Laguna Hills	2,776	28,935	9.6%
92655	Midway City	3,160	8,292	38.1%
92656	Aliso Viejo	2,591	50,367	5.1%
92657	Newport Coast	147	10,736	1.4%
92660	Newport Beach	927	34,470	2.7%
92661	Newport Beach	77	3,798	2.0%
92662	Newport Beach	45	2,762	1.6%
92663	Newport Beach	911	21,434	4.3%
92677	Laguna Niguel	3,568	63,682	5.6%
92679	Trabuco Canyon	752	32,556	2.3%
92683	Westminster	23,358	90,290	25.9%
92688	Rancho Santa Margarita	2,530	44,074	5.7%
92691	Mission Viejo	3,249	46,533	7.0%
92692	Mission Viejo	2,340	46,365	5.0%
92704	Santa Ana	27,259	90,669	30.1%
92705	Santa Ana	6,556	44,510	14.7%
92707	Santa Ana	17,636	59,877	29.5%
92708	Fountain Valley	5,880	55,669	10.6%
92780	Tustin	10,817	56,611	19.1%
92782	Tustin	1,330	25,551	5.2%
92861	Villa Park	183	5,810	3.1%
92867	Orange	6,540	44,792	14.6%
92869	Orange	5,083	37,804	13.4%
<b>Total</b>		<b>184,344</b>	<b>1,626,338</b>	<b>11.3%</b>

Source: California Department of Health Care Services, AGS

## **Medically Indigent Services Program**

Orange County is one of twenty-four counties in California that run a medically indigent services program. Counties managing such programs are able to set their own rules about services and eligibility. Eligibility is limited to residents ages 19 to 64 with income at or below 200 percent of the Federal Poverty Level. Enrollees need to have a “medical need” to get coverage. Orange County’s program provides services through county-owned clinics and contracts with private providers.

Orange County is one of nine counties in California that runs two such programs, CalOptima and Orange County Medical Services Initiative.

### **CalOptima**

CalOptima is governed by a Board of Directors appointed by the Orange County Board of Supervisors. The Board of Directors is made up of member advocates and representatives from the medical community, business, and local government.

CalOptima provides coverage to one in seven residents, one in five seniors, and almost a third of its community’s children through three major programs:

- Medi-Cal – for low-income families, children, seniors, and persons with disabilities:
  - 380,040 Medi-Cal members; and
  - Annual revenue (FY2012-2013) from Medi-Cal is \$1.2 billion.
- Healthy Families Program – (California’s Children’s Health Insurance Program) for children in lower-income families who do not qualify for no-cost Medi-Cal:
  - 38,441 Healthy Families Program members; and
  - Annual revenue (FY2012-2013) from Healthy Families Program is approximately \$38 million.
- OneCare – A Medicare Advantage Special Needs Plan for low-income seniors and persons with disabilities who qualify for both Medicare and Medi-Cal:
  - 14,318 OneCare members; and
  - Annual Revenue (FY 2012-2013) from OneCare is \$201 million.

CalOptima is expected to add approximately 150,000 new Medi-Cal members in 2014 when the Medicaid expansion in California occurs due to the 2010 Federal Patient Protection and Affordable Care Act.

CalOptima's contracted provider network includes:

- 1,700 primary care providers;
- 4,300 specialists;
- 27 acute and rehab hospitals;
- 27 community health centers;
- 487 pharmacies; and
- 116 long-term care facilities.

### **Orange County Medical Services Initiative**

This is a Federal, State, and County-funded healthcare program that provides medical care for Orange County's lower income residents. The program is managed by Orange County and supported by significant contributions from local hospitals and physicians to provide necessary healthcare to low-income adults who do not qualify for Medi-Cal benefits. The program provides a full range of medical services for County residents 19 through 64 years of age (current enrollment estimated at 45,000). It assigns a "medical home" to all its participants where they receive their care and referral to other providers as needed. The program accomplishes this by contracting with the County's key clinics and hospitals and provides integrated care through contractual relationships with surgery centers, skilled nursing facilities, urgent care centers, "minute clinics" and a variety of diagnostic centers and programs

Since California plans to expand its Medicaid program under the 2010 Federal Patient Protection and Affordable Care Act, 80 percent (about 36,000 enrollees) of the program's population will be eligible for Medi-Cal, prompting the program to phase out in 2014. The remaining 20 percent (about 9,000 enrollees) of the population will be mandated to acquire subsidized healthcare coverage, either through California Health Benefits Exchange (currently under development), or a new "basic health plan" option that California may elect to develop under terms of the 2010 Federal Patient Protection and Affordable Care Act. Only those below 200% of the Federal Poverty Level are eligible.

## Selected Health Indicators

Overall, health indicators in Orange County are better than in the State of California as a whole. A review of health indicators<sup>8</sup> for Orange County (deaths, diseases, and births) supports the following conclusions:

- Health indicators in Orange County are superior to health indicators statewide in the areas of obstetrics and prenatal care (refer to table below). Measures on low birth weight infants, late or no pre-natal care, and the infant mortality rate are the same or just above the national goal.

NATALITY STATISTICS: 2010			
Health Status Indicator	Orange County	California	National Goal
Low birth weight infants	6.5%	6.8%	5.0%
Late or no pre-natal care	11.1%	17.1%	10.0%
Infant mortality rate (per 1,000 births)	4.5	5.2	4.5

Source: California Department of Health Care Services

- The overall age-adjusted mortality rate for Orange County is lower than that of the State of California and the national rate. Orange County's rates for almost all causes are lower than the statewide rate. The two exceptions are Alzheimer's disease and influenza/ pneumonia. Orange County achieved ten out of the fourteen reported national goals based on underlying and contributing cause of death.

MORTALITY STATISTICS RATE PER 100,000 POPULATION					
Selected cause	Orange County		(Age Adjusted)		
	Crude Death Rate	Age Adjusted Death Rate	California	National	National Goal
All Causes	535.5	584.5	632.7	741.1	—
- All Cancers	133.9	146.1	151.7	173.2	158.6
- Colorectal Cancer	11.8	12.8	14.1	15.9	13.7
- Lung Cancer	30.9	34.5	36.1	48.5	43.3
- Female Breast Cancer	21.5	20.6	20.7	22.3	21.3
- Prostate Cancer	14.6	21.0	21.2	22.0	28.2
- Diabetes	12.9	14.2	19.5	20.9	n/a
- Alzheimer's Disease	29.0	32.4	28.2	23.5	n/a
- Coronary Heart Disease	103.2	113.3	121.6	126.0	162.0
- Cerebrovascular Disease (Stroke)	33.5	37.2	37.4	38.9	50.0
- Influenza/Pneumonia	16.6	18.5	17.2	16.2	n/a
- Chronic Lower Respiratory Disease	28.7	32.8	36.7	42.3	n/a
- Chronic Liver Disease And Cirrhosis	9.2	9.2	10.8	9.2	3.2
- Accidents (Unintentional Injuries)	21.4	21.6	27.1	37.3	17.1
- Motor Vehicle Traffic Crashes	5.0	4.9	7.9	11.7	8.0
- Suicide	8.5	8.4	9.7	11.8	4.8
- Homicide	2.3	2.2	5.3	5.5	2.8
- Firearm-Related Deaths	4.5	4.5	7.8	10.1	3.6
- Drug-Induced Deaths	10.1	9.8	10.5	12.6	1.2

Source: California Department of Public Health, Center for Health Statistics. 2008-2010

<sup>8</sup> Source: California Department of Health Services' County Health Status Profiles 2012

- Orange County has lower morbidity rates than California overall. The rate of incidence of AIDS is lower than the statewide rates but higher than the national goals.

MORBIDITY STATISTICS: 2010 RATE PER 100,000 POPULATION			
Health Status Indicator	Orange County	California	National Goal
AIDS	6.9	9.4	1.00
Chlamydia	259.4	389.6	n/a
Gonorrhea	28.9	65.8	19.00
Tuberculosis	6.6	6.5	1.00

Source: California Department of Health Care Services

## ***2010 Community Health Needs Assessment***

In 2010, the Orange County Health Needs Assessment prepared a community needs assessment for Hoag. It is jointly funded by Hoag, CalOptima, the Children and Families Commission, the Health Care Agency of Orange County, and eight other nonprofit hospitals.

The assessment focused on the needs in the communities surrounding Hoag's Newport Beach hospital. The service area is defined by nine cities in Orange County (Costa Mesa, Fountain Valley, Garden Grove, Huntington Beach, Irvine, Laguna Beach, Newport Beach, Santa Ana, and Westminster).

The study analyzed quantitative and qualitative data, including an online informant survey. The results included:

- Hoag's service area had a slightly higher percentage of children (13%) and non-elderly adults (27%) without health coverage compared to Orange County (10% of children and 23% of non-elderly adults);
- Hoag's service area was slightly lower than Orange County on rates of children and adults who are at an unhealthy weight. Twenty-nine percent of children were overweight or at risk of being overweight in the Hoag service area, compared to 31% in the County. Fifty percent of adults were overweight or obese in the Hoag service area, compared to 54% in Orange County;
- Within Hoag's service area, 15% of overweight/obese adults reported having diabetes, compared to 13% of overweight/obese adults in Orange County;
- Measures of mental/behavioral health were similar for both Hoag's service area and Orange County. An estimated 7% of children between the ages of 6 and 17 have been diagnosed with a mental or behavioral health problem, compared to an estimated 6% in Orange County;
- In both the Orange County and Hoag service areas, 16% of adults expressed concerns about their own mental and emotional health;
- The most important health issues in the community were viewed to be the following:
  - Health care access and coverage;
  - Health care utilization;
  - Preventive care or risk factors;
  - Chronic diseases;

- Dental health;
- Mental/behavioral health;
- Nutrition, obesity, and exercise;
- Child health;
- Senior health;
- Maternal and infant health; and
- Disaster preparedness.

Following the Hoag Hospital Irvine opening in 2010, a health needs assessment was developed for the City of Irvine to help direct Hoag Hospital Irvine as to how best design its health education and outreach programs. The City of Irvine health needs assessment was conducted in collaboration with the City of Irvine’s Department of Community Health and Human Services. A few key findings from this health needs assessment are outlined below:

- Over 60% of Irvine residents 25 years of age or older had at least a bachelor’s degree, compared to a countywide percent of about 35%;
- The City of Irvine met the Healthy People 2020 Objectives for both normal weight adults and obese adults;
- The two most common conditions were eye/vision problems and Attention Deficit Disorder/Attention Deficit Hyperactivity Disorder; and
- The Irvine median annual household income grew in a decade, from \$72,978 to \$95,501 in 2010.

### ***Hospital Supply, Demand, and Market Share***

There are ten other general acute care hospitals within Hoag’s service area that, together with Hoag, have a combined total of 2,818 licensed beds with an aggregate occupancy rate of 52.2%. Hospitals in the Hoag service area run at occupancy rates that range between 28% at Hoag Orthopedic Institute to nearly 60% at Fountain Valley Regional Hospital. Hoag’s licensed-bed capacity (568 beds) represents 20% of the area’s beds, and Hoag’s inpatient volume accounts for 23% of discharges and 22% of patient days.

An analysis of the services offered by Hoag in comparison to services offered by other providers is shown on the following pages. The hospitals shown in the table below were analyzed to determine area hospital available bed capacity by service. Although some of these hospitals are located over 26 miles away, they provide hospital care to Hoag's service area population.

AREA HOSPITAL DATA: 2011									
Hospital	Ownership/Affiliation	City	Within Service Area	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from HOAG
<b>Hoag Memorial Hospital Presbyterian<sup>1</sup></b>	<b>Hoag Memorial Hospital Presbyterian</b>	<b>Newport Beach</b>	<b>X</b>	<b>568</b>	<b>26,517</b>	<b>114,523</b>	<b>313.8</b>	<b>55.2%</b>	<b>-</b>
Orange Coast Memorial Medical Center	Memorial Health Services	Fountain Valley	X	218	12,456	45,659	125.1	57.4%	7.3
Coastal Communities Hospital	Integrated Healthcare Holdings, Inc.	Santa Ana	X	178	4,383	33,711	92.4	51.9%	7.7
Huntington Beach Hospital	Prime Healthcare Services, Inc.	Huntington Beach	X	131	3,413	18,085	49.5	37.8%	7.9
Fountain Valley Regional Hospital	Tenet Healthcare Corporation	Fountain Valley	X	400	18,027	86,236	236.3	59.1%	9.5
Western Medical Center - Santa Ana	Integrated Healthcare Holdings, Inc.	Santa Ana	X	228	8,189	36,282	99.4	43.6%	11.3
<b>Hoag Orthopedic Institute</b>	<b>Hoag Memorial Hospital Presbyterian</b>	<b>Irvine</b>	<b>X</b>	<b>70</b>	<b>2,933</b>	<b>7,176</b>	<b>19.7</b>	<b>28.1%</b>	<b>12.2</b>
Chapman Medical Center	Integrated Healthcare Holdings, Inc.	Orange	X	114	2,023	20,985	57.5	50.4%	13.8
Saddleback Memorial Medical Center	Memorial Health Services	Laguna Hills	X	325	17,125	68,722	188.3	57.9%	17.7
<b>Mission Hospital Regional Medical Center<sup>2</sup></b>	<b>St. Joseph Health System</b>	<b>Mission Viejo</b>	<b>X</b>	<b>552</b>	<b>22,285</b>	<b>94,604</b>	<b>259.2</b>	<b>47.0%</b>	<b>22.5</b>
<b>SUB-TOTAL</b>				<b>2,784</b>	<b>117,351</b>	<b>525,983</b>	<b>1,441.0</b>	<b>51.8%</b>	
Kindred Hospital Westminster	Kindred Healthcare, Inc.	Westminster		109	1,107	36,132	99.0	90.8%	12.2
<b>St. Joseph Hospital - Orange</b>	<b>St. Joseph Health System</b>	<b>Orange</b>		<b>525</b>	<b>20,260</b>	<b>77,484</b>	<b>212.3</b>	<b>40.4%</b>	<b>14.2</b>
Children's Hospital of Orange County	Children's Hospital of Orange County	Orange		238	11,787	59,515	163.1	68.5%	15.1
University of California Irvine Medical Center	Regents of the University of California	Orange		417	16,424	102,400	280.5	67.3%	15.6
West Anaheim Medical Center	Prime Healthcare Services, Inc.	Anaheim		197	6,000	33,120	90.7	46.1%	16.2
Garden Grove Hospital and Medical Center	Prime Healthcare Services, Inc.	Garden Grove		167	6,260	24,219	66.4	39.7%	16.4
Western Medical Center - Anaheim	Integrated Healthcare Holdings, Inc.	Anaheim		193	8,668	44,597	122.2	63.3%	18.5
Kaiser Foundation Hospital - Anaheim	Kaiser Foundation Hospitals	Anaheim		350	21,681	77,049	211.1	60.3%	20.2
Anaheim Memorial Medical Center	AHMC Healthcare Inc.	Anaheim		223	12,930	55,191	151.2	67.8%	20.8
Placentia Linda Hospital	Tenet Healthcare Corporation	Placentia		114	3,794	12,185	33.4	29.3%	21.2
Los Alamitos Medical Center	Tenet Healthcare Corporation	Los Alamitos		167	9,851	43,565	119.4	71.5%	21.9
<b>St. Jude Medical Center</b>	<b>St. Joseph Health System</b>	<b>Fullerton</b>		<b>384</b>	<b>16,272</b>	<b>82,132</b>	<b>225.0</b>	<b>58.6%</b>	<b>26.3</b>
La Palma Intercommunity Hospital	Prime Healthcare Services, Inc.	La Palma		141	3,602	16,899	46.3	32.8%	26.4
Long Beach Memorial Medical Center	Memorial Health Services	Long Beach		462	22,798	110,632	303.1	65.6%	26.5
<b>TOTAL</b>				<b>6,471</b>	<b>278,785</b>	<b>1,301,103</b>	<b>3,564.7</b>	<b>55.1%</b>	

Source: OSHPD Disclosure Reports

<sup>1</sup> Hoag Memorial Hospital Presbyterian and Hoag Hospital Irvine operate under one license

<sup>2</sup> Mission Hospital Regional Medical Center and Mission Hospital Laguna Beach operate under one license

## Hospital Market Share

The table below illustrates market share discharges by individual hospital within Hoag's service area over the past four years.

SERVICE AREA HOSPITAL MARKET SHARE 2008-2011				
Hospitals	2008	2009	2010	2011
<b>Hoag Memorial Hospital Presbyterian</b>	<b>16.7%</b>	<b>17.9%</b>	<b>18.6%</b>	<b>16.8%</b>
Saddleback Memorial Medical Center	9.5%	10.2%	9.8%	9.6%
Mission Hospital Regional Medical Center	9.3%	9.5%	9.8%	9.5%
Kaiser - All	6.5%	8.2%	8.4%	8.1%
Fountain Valley Rgnl Hosp and Med Ctr - Euclid	7.4%	8.0%	7.7%	8.0%
St. Joseph Hospital - Orange	7.2%	7.3%	6.9%	6.9%
Orange Coast Memorial Medical Center	6.0%	5.8%	6.2%	6.3%
Western Medical Center - Santa Ana	4.0%	4.0%	3.5%	3.2%
University of California Irvine Medical Center	3.6%	3.5%	3.5%	3.8%
Children's Hospital of Orange County	2.7%	3.1%	3.0%	3.2%
Huntington Beach Hospital	2.6%	2.4%	2.2%	2.0%
Coastal Communities Hospital	2.3%	2.4%	2.2%	2.1%
South Coast Medical Center	2.1%	1.8%	2.1%	2.3%
Los Alamitos Medical Center	1.5%	1.7%	1.6%	1.7%
Long Beach Memorial Medical Center	1.5%	1.5%	1.4%	1.4%
Irvine Regional Hospital and Medical Center	3.8%	0.1%	0.0%	0.0%
Children's Hospital at Mission	1.0%	1.0%	0.9%	0.9%
Garden Grove Hospital and Medical Center	1.2%	0.9%	0.9%	0.8%
<b>Sub-Total</b>	<b>88.8%</b>	<b>89.4%</b>	<b>88.7%</b>	<b>86.7%</b>
All Other	11.2%	10.6%	11.3%	13.3%
<b>Total Percentage</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Total Discharges</b>	<b>137,786</b>	<b>136,975</b>	<b>133,288</b>	<b>128,351</b>

Source: OSHPD Inpatient Discharge Database

- The number of discharges in Hoag's service area has declined by 7% over the four years;
- Over the last four years Hoag has consistently ranked first in terms of overall market share for its service area based on discharges (approximately 17% in FY 2011). Saddleback Memorial Medical Center and Mission Hospital Regional Medical Center ranked second in inpatient discharges with approximately 7% market share;

In 2011, Hoag Orthopedic Institute's total market share for the service area, which is included in the preceding table's "all other" category, was 2% (2,508 discharges out of a total of 128,351); and

- Kaiser has approximately 8% market share of service area discharges.

The following table illustrates overall hospital market share for Orange County in 2011.

<b>Hospital Market Share Orange County 2011</b>		
<b>Hospital</b>	<b>Discharges</b>	<b>Percentage</b>
<b>Hoag Memorial Hospital Presbyterian</b>	<b>24,035</b>	<b>9.4%</b>
Kaiser - All	23,206	9.1%
<b>St. Joseph Hospital - Orange</b>	<b>19,022</b>	<b>7.5%</b>
<b>Mission Hospital Regional Medical Center</b>	<b>16,972</b>	<b>6.6%</b>
Fountain Valley Rgnl Hosp and Med Ctr - Euclid	16,969	6.6%
Saddleback Memorial Medical Center	16,045	6.3%
UC Irvine Medical Center	13,835	5.4%
AHMC Anaheim Regional Medical Center	11,930	4.7%
<b>St. Jude Medical Center</b>	<b>11,884</b>	<b>4.7%</b>
Orange Coast Memorial Medical Center	11,399	4.5%
Children's Hospital of Orange County	9,470	3.7%
Western Medical Center - Santa Ana	7,921	3.1%
Western Medical Center Hospital - Anaheim	6,187	2.4%
Garden Grove Hospital and Medical Center	6,090	2.4%
West Anaheim Medical Center	5,494	2.2%
Los Alamitos Medical Center	5,430	2.1%
Coastal Communities Hospital	4,430	1.7%
Mission Hospital Laguna Beach	3,707	1.5%
Placentia Linda Hospital	3,242	1.3%
Huntington Beach Hospital	3,112	1.2%
<b>Hoag Orthopedic Institute</b>	<b>3,072</b>	<b>1.2%</b>
Long Beach Memorial Medical Center	2,369	0.9%
Children's Hospital at Mission	1,777	0.7%
La Palma Intercommunity Hospital	1,655	0.6%
<b>St. Mary Regional Medical Center</b>	<b>24</b>	<b>0.0%</b>
<b>St. Joseph Hospital - Eureka</b>	<b>2</b>	<b>0.0%</b>
<b>All Other</b>	<b>25,947</b>	<b>10.2%</b>
<b>Total</b>	<b>255,226</b>	<b>100.0%</b>

Note: Excludes normal new borns

Source: OSHPD Patient Discharge Database

The following table illustrates hospital market share by payer category as reported by OSHPD for 2011.

HOAG SERVICE AREA MARKET SHARE BY PAYER, 2011											
Hospitals	Total Discharges	Market Share	Medicare		Private Coverage			Medi-Cal		Other	
			FFS	Managed	HMO	PPO	FFS	FFS	Managed	Indigent Programs	Other
Hoag Memorial Hospital Presbyterian	21,517	16.8%	18.2%	14.6%	10.8%	33.0%	3.5%	7.3%	7.9%	15.4%	8.8%
Saddleback Memorial Medical Center	12,367	9.6%	11.4%	18.2%	7.9%	9.7%	4.8%	2.6%	2.3%	5.2%	9.9%
Mission Hospital Regional Medical Center	12,240	9.5%	12.4%	6.2%	7.4%	12.5%	1.1%	9.4%	8.7%	11.8%	5.3%
Kaiser - All	10,440	8.1%	0.1%	22.5%	27.2%	0.5%	0.5%	0.2%	2.9%	0.0%	1.2%
Fountain Valley Rgnl Hosp and Med Ctr - Euclid	10,227	8.0%	8.6%	5.2%	5.4%	3.1%	2.1%	11.5%	25.2%	20.5%	4.7%
St. Joseph Hospital - Orange	8,799	6.9%	6.7%	0.7%	8.6%	2.2%	57.1%	10.7%	6.1%	7.8%	2.6%
Orange Coast Memorial Medical Center	8,051	6.3%	5.3%	13.4%	6.9%	5.2%	0.2%	1.0%	6.9%	6.3%	4.3%
UC Irvine Medical Center	4,867	3.8%	3.5%	0.9%	3.5%	2.7%	4.5%	5.5%	7.8%	12.4%	4.6%
Children's Hospital of Orange County	4,147	3.2%	0.0%	0.0%	3.6%	4.6%	1.9%	12.0%	10.5%	0.0%	0.9%
Western Medical Center - Santa Ana	4,104	3.2%	2.0%	1.9%	1.5%	1.5%	1.4%	11.3%	3.0%	0.0%	16.2%
Mission Hospital Laguna Beach	2,901	2.3%	2.5%	1.5%	0.7%	5.6%	0.0%	0.4%	0.7%	2.3%	2.0%
Coastal Communities Hospital	2,674	2.1%	1.6%	0.5%	0.3%	0.5%	0.1%	11.0%	5.4%	0.5%	5.3%
Huntington Beach Hospital	2,628	2.0%	4.1%	1.6%	0.8%	0.0%	4.5%	0.9%	2.9%	6.1%	2.0%
Hoag Orthopedic Institute	2,508	2.0%	3.2%	2.1%	0.8%	3.6%	0.2%	0.0%	0.0%	0.2%	1.0%
Los Alamitos Medical Center	2,235	1.7%	2.7%	4.0%	0.7%	0.8%	0.8%	0.2%	0.3%	1.4%	3.3%
All Other	18,646	14.5%	17.8%	6.8%	13.8%	14.4%	17.3%	16.0%	9.4%	10.1%	27.9%
<b>Total</b>	<b>128,351</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Discharges</b>			<b>32,038</b>	<b>16,958</b>	<b>22,210</b>	<b>24,637</b>	<b>3,675</b>	<b>8,638</b>	<b>9,817</b>	<b>3,543</b>	<b>6,835</b>
<b>% of Total Discharges</b>			<b>25.0%</b>	<b>13.2%</b>	<b>17.3%</b>	<b>19.2%</b>	<b>2.9%</b>	<b>6.7%</b>	<b>7.6%</b>	<b>2.8%</b>	<b>5.3%</b>

Note: Excludes normal new borns  
Source: OSHPD Patient Discharge Database

- The largest categories of discharges are Private Coverage (HMO, PPO, and FFS) with 40%, followed by Medicare patients with over 38%, and Medi-Cal with 14%;
- Hoag is the market share leader in its service area for Medicare FFS (18%) and Commercial PPO (33%);
- Fountain Valley Regional Hospital and Medical Center is the market share leader for Medi-Cal Managed Care with 25% of the service area market share; and
- Kaiser ranks first in Medicare Managed Care (22.5%) and Commercial Managed Care (27%).

The following table illustrates hospital market share by payer type for Orange County overall in 2011.

Hospital Market Share by Payer Type Orange County 2011											
Payor Type	Total Discharges	Hoag Memorial Hospital Presbyterian	Kaiser - All	St. Joseph Hospital - Orange	Mission Hospital Regional Medical Center	Fountain Valley Rgnl Hosp and Med Ctr - Euclid	Saddleback Memorial Medical Center	UC Irvine Medical Center	AHMC Anaheim Regional Medical Center	All Others	Total
Commercial Insurance - FFS	7,638	1.8%	0.4%	54.5%	0.7%	1.6%	3.1%	4.9%	2.2%	30.8%	100%
Commercial Insurance - HMO	46,607	6.0%	29.6%	9.1%	5.0%	5.0%	4.9%	3.5%	3.8%	33.2%	100%
Commercial Insurance - PPO	37,201	24.7%	0.7%	2.6%	11.2%	3.1%	8.5%	3.5%	3.4%	42.3%	100%
Indigent Programs	8,147	8.1%	0.0%	8.7%	7.4%	14.6%	3.1%	17.9%	10.5%	29.8%	100%
Medi-Cal - FFS	22,328	3.1%	0.2%	10.5%	5.6%	7.2%	1.2%	8.1%	2.6%	61.5%	100%
Medi-Cal - Managed	25,388	3.7%	3.5%	6.4%	4.8%	17.5%	1.2%	10.7%	9.2%	43.1%	100%
Medicare - FFS	60,517	10.4%	0.3%	7.2%	8.8%	7.0%	7.7%	5.0%	5.2%	48.6%	100%
Medicare - Managed	32,279	8.3%	24.3%	0.8%	4.3%	4.4%	11.9%	1.7%	4.7%	39.6%	100%
Other	15,121	4.6%	1.3%	2.5%	4.4%	3.3%	6.9%	6.5%	2.2%	68.3%	100%
<b>Grand Total</b>	<b>255,226</b>	<b>24,035</b>	<b>23,206</b>	<b>19,022</b>	<b>16,972</b>	<b>16,969</b>	<b>16,045</b>	<b>13,835</b>	<b>11,930</b>	<b>113,212</b>	<b>100%</b>

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

## Market Share by Service Line

The following table illustrates hospital market share by service line for 2011 in Hoag's service area.

HOSPITAL MARKET SHARE BY SERVICE LINE: 2011											
Service Line	Total Discharges	Hoag Memorial Hospital Presbyterian	Saddleback Memorial Medical Center	Mission Hospital Regional Medical Center	Kaiser - All	Fountain Valley Rgnl Hosp and Med Ctr - Euclid	St. Joseph Hospital - Orange	Orange Coast Memorial Medical Center	UC Irvine Medical Center	All Others	Total
General Medicine	35,895	17.6%	11.1%	9.4%	8.3%	8.8%	4.8%	7.1%	2.8%	30.0%	100%
Obstetrics	19,578	26.3%	9.9%	10.2%	11.5%	9.0%	9.7%	4.4%	2.0%	17.0%	100%
Cardiac Services	12,938	13.9%	15.8%	11.2%	7.6%	8.3%	5.0%	10.5%	2.2%	25.6%	100%
General Surgery	10,794	19.9%	6.9%	8.3%	7.1%	9.5%	7.3%	8.3%	4.6%	28.2%	100%
Orthopedics <sup>1</sup>	8,832	5.3%	10.2%	8.4%	9.5%	5.8%	6.5%	6.0%	2.6%	45.8%	100%
Behavioral Health	7,914	4.9%	0.9%	2.1%	1.7%	1.0%	11.1%	0.8%	8.1%	69.5%	100%
Neonatology	5,526	21.7%	9.4%	7.3%	13.9%	9.2%	8.4%	3.1%	4.5%	22.5%	100%
Neurology	5,294	15.1%	11.3%	11.0%	6.1%	9.7%	5.3%	5.9%	4.2%	31.5%	100%
Oncology/Hematology (Medical)	4,223	17.1%	7.1%	8.0%	8.6%	9.3%	6.4%	8.5%	6.4%	28.6%	100%
Spine	3,456	9.8%	8.4%	13.0%	4.5%	7.8%	12.9%	4.0%	4.6%	34.9%	100%
Gynecology	2,514	18.2%	10.7%	7.3%	8.9%	7.8%	9.2%	11.5%	5.1%	21.3%	100%
Other	2,475	15.0%	7.2%	16.2%	5.9%	4.6%	5.0%	3.7%	10.7%	31.7%	100%
Urology	2,109	19.0%	6.3%	11.7%	8.1%	8.9%	5.9%	8.8%	7.3%	24.1%	100%
Vascular Services	2,065	20.9%	11.6%	9.2%	5.7%	9.8%	9.6%	5.9%	5.0%	22.4%	100%
ENT	1,792	10.8%	5.7%	17.7%	7.6%	8.3%	2.6%	4.0%	5.7%	37.6%	100%
Rehabilitation	1,523	0.0%	0.1%	21.2%	0.1%	0.0%	0.0%	0.0%	3.7%	74.9%	100%
Neurosurgery	1,264	26.3%	4.3%	12.6%	7.0%	4.1%	6.9%	2.8%	7.6%	28.6%	100%
Ophthalmology	159	18.2%	5.0%	7.5%	8.8%	5.0%	4.4%	5.0%	13.8%	32.1%	100%
<b>Grand Total</b>	<b>128,351</b>	<b>16.8%</b>	<b>9.6%</b>	<b>9.5%</b>	<b>8.1%</b>	<b>8.0%</b>	<b>6.9%</b>	<b>6.3%</b>	<b>3.8%</b>	<b>31.0%</b>	<b>100%</b>

Note: Excludes normal new births

Source: OSHPD Patient Discharge Database

<sup>1</sup> Hoag Orthopedic Institute's discharges and market share are represented in "All Others". HOI is the market share leader for orthopedics with 2,117 discharges and 24% of the market share in 2011.

- Hoag is the service line leader in eleven out of eighteen services lines;
- Hoag is notably high in market share in obstetrics, neonatology, neurosurgery, and vascular (over 20%). Hoag has the highest market share percentage in obstetrics and neurosurgery with 26% in each;
- Saddleback Memorial had the second highest market share in the service area with nearly 10% overall and was the market share leader for two service lines (cardiac services and orthopedics) with 16% and 10% market share, respectively; and
- Hoag Orthopedic Institute is the market leader for orthopedics with 2,117 discharges and 24% of the market share.

The following table illustrates hospital market share by service lines for 2011 in Orange County.

Hospital Market Share by Service Line Orange County 2011											
Service Line	Total Discharges	Hoag Memorial Hospital Presbyterian	Kaiser - All	St. Joseph Hospital - Orange	Mission Hospital Regional Medical Center	Fountain Valley Rgnl Hosp and Med Ctr - Euclid	Saddleback Memorial Medical Center	UC Irvine Medical Center	AHMC Anaheim Regional Medical Center	All Others	Total
General Medicine	72,702	9.4%	9.0%	5.2%	6.3%	7.0%	7.1%	4.2%	5.8%	46.0%	100%
Obstetrics	40,523	14.5%	12.0%	11.4%	7.7%	7.8%	6.3%	3.6%	4.4%	32.4%	100%
Cardiac Services	25,865	7.5%	8.3%	5.2%	7.5%	6.5%	10.1%	3.7%	7.5%	43.6%	100%
General Surgery	21,105	11.2%	8.2%	7.5%	5.8%	8.5%	4.8%	6.2%	4.1%	43.7%	100%
Orthopedics*	15,947	3.1%	11.1%	7.0%	6.3%	5.1%	7.8%	3.7%	3.3%	52.6%	100%
Behavioral Health	15,856	2.9%	1.7%	10.7%	1.4%	0.7%	0.6%	9.0%	0.8%	72.3%	100%
Neonatology	11,434	12.0%	15.7%	10.0%	5.4%	7.8%	5.9%	7.4%	2.9%	32.9%	100%
Neurology	10,559	8.2%	7.3%	5.7%	7.5%	6.9%	7.0%	7.0%	5.2%	45.3%	100%
Oncology/Hematology	8,266	9.8%	10.1%	6.8%	5.5%	7.4%	4.5%	8.3%	5.4%	42.1%	100%
Spine	6,305	6.3%	5.1%	13.8%	9.7%	7.7%	5.8%	5.4%	1.6%	44.6%	100%
Gynecology	5,151	11.2%	11.2%	9.3%	5.1%	6.9%	6.6%	5.5%	4.5%	39.7%	100%
Other	4,581	8.9%	6.8%	5.1%	11.6%	4.3%	4.6%	17.5%	2.7%	38.4%	100%
Urology	4,138	11.2%	10.0%	6.4%	7.6%	7.8%	4.3%	8.5%	5.9%	38.3%	100%
Vascular Services	3,970	12.4%	7.1%	9.8%	6.2%	8.9%	7.2%	6.4%	8.6%	33.3%	100%
ENT	3,426	6.7%	10.0%	2.9%	12.0%	7.3%	4.2%	6.9%	2.9%	47.1%	100%
Rehabilitation	2,735	0.0%	0.3%	0.0%	14.7%	0.0%	0.1%	6.1%	0.0%	78.8%	100%
Neurosurgery	2,313	17.0%	8.0%	9.1%	10.4%	4.1%	3.0%	11.6%	1.6%	35.3%	100%
Ophthalmology	350	8.6%	8.9%	4.0%	6.6%	4.9%	2.9%	17.7%	3.1%	43.4%	100%
<b>Grand Total</b>	<b>255,226</b>	<b>9.4%</b>	<b>9.1%</b>	<b>7.5%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.3%</b>	<b>5.4%</b>	<b>4.7%</b>	<b>44.4%</b>	<b>100%</b>
		<b>24,035</b>	<b>23,206</b>	<b>19,022</b>	<b>16,972</b>	<b>16,969</b>	<b>16,045</b>	<b>13,835</b>	<b>11,930</b>	<b>113,212</b>	

Note: Excludes normal new births

Source: OSHPD Patient Discharge Database

\*Hoag Orthopedic Institute's discharges and market share are represented in "All Others." HOI is the market share leader for orthopedics with 2,593 discharges and 16.3% market share in 2011.

- Hoag is the leader in Orange County in eight out of eleven service lines;
- Kaiser had the second highest overall market share with over 9% overall;
- St. Joseph Hospital was third in overall market share with 7.5%; and
- Hoag Orthopedic Institute is the market leader for orthopedics with 2,593 discharges and 16.3% market share.

## Market Share by ZIP Code

The following table illustrates hospital market share by ZIP code for 2011 in the service area.

HOSPITAL MARKET SHARE BY ZIP CODE, 2011												
ZIP Code	Community	Total Discharges	Hoag Memorial Hospital Presbyterian	Saddleback Memorial Medical Center	Mission Hospital Regional Center	Kaiser - All	Fountain Valley Rgnl Hosp and Med Ctr - Euclid	St. Joseph Hospital - Orange	Orange Coast Memorial Medical Center	UC Irvine Medical Center	All Others	Total
92683	Westminster	7,913	5.6%	0.3%	0.3%	7.4%	32.0%	3.3%	14.8%	5.6%	30.8%	100.0%
92704	Santa Ana	6,674	4.3%	0.6%	0.4%	6.9%	23.6%	9.3%	9.3%	7.4%	38.2%	100.0%
92647	Huntington Beach	5,341	16.1%	0.4%	0.2%	7.4%	17.7%	2.5%	16.4%	4.3%	34.9%	100.0%
92708	Fountain Valley	5,303	12.3%	0.6%	0.5%	7.9%	24.9%	2.5%	26.9%	3.2%	21.1%	100.0%
92646	Huntington Beach	5,016	33.4%	0.7%	0.4%	7.1%	8.7%	2.1%	19.2%	2.8%	25.6%	100.0%
92677	Laguna Niguel	4,983	5.6%	16.3%	40.2%	7.0%	0.4%	1.1%	0.6%	2.4%	26.3%	100.0%
92627	Costa Mesa	4,920	50.2%	1.1%	0.7%	4.8%	7.7%	2.2%	4.8%	2.5%	25.9%	100.0%
92630	Lake Forest	4,739	6.6%	38.4%	20.3%	9.3%	1.2%	2.9%	1.1%	2.7%	17.5%	100.0%
92707	Santa Ana	4,680	4.4%	0.8%	0.6%	7.4%	12.2%	14.6%	5.3%	6.2%	48.5%	100.0%
92691	Mission Viejo	4,352	3.5%	27.2%	38.9%	7.8%	1.0%	1.4%	0.6%	2.3%	17.2%	100.0%
92780	Tustin	4,344	6.6%	1.7%	1.2%	10.0%	4.7%	22.4%	3.6%	5.9%	43.9%	100.0%
92637	Laguna Woods	4,323	5.1%	64.1%	9.7%	8.8%	0.4%	0.9%	0.7%	1.9%	8.5%	100.0%
92626	Costa Mesa	4,085	40.5%	1.3%	1.3%	7.6%	8.0%	4.2%	7.8%	4.0%	25.1%	100.0%
92692	Mission Viejo	3,914	4.4%	20.7%	43.6%	9.7%	0.8%	1.7%	0.9%	2.1%	16.0%	100.0%
92648	Huntington Beach	3,831	28.7%	0.5%	0.5%	7.9%	8.8%	1.5%	13.2%	2.8%	36.1%	100.0%
92705	Santa Ana	3,533	5.8%	1.2%	0.9%	8.4%	3.2%	32.8%	2.5%	4.5%	40.7%	100.0%
90740	Seal Beach	3,269	4.2%	0.1%	0.1%	11.8%	1.4%	1.4%	1.9%	1.8%	77.6%	100.0%
92656	Aliso Viejo	3,096	12.1%	28.3%	23.4%	8.7%	1.2%	2.5%	1.0%	1.8%	21.0%	100.0%
92867	Orange	3,050	3.6%	0.8%	0.6%	10.9%	1.9%	39.0%	2.1%	4.5%	36.6%	100.0%
92649	Huntington Beach	2,965	23.6%	0.5%	0.6%	8.6%	8.0%	2.8%	14.7%	3.6%	37.4%	100.0%
92688	Rancho Santa Margarita	2,922	4.9%	19.8%	39.7%	8.1%	1.0%	2.4%	1.1%	2.3%	20.8%	100.0%
92869	Orange	2,901	5.8%	0.7%	0.7%	9.7%	2.4%	34.4%	1.8%	5.2%	39.3%	100.0%
90803	Long Beach	2,826	4.1%	0.1%	0.0%	9.2%	0.7%	0.7%	1.0%	1.5%	82.5%	100.0%
92653	Laguna Hills	2,784	6.0%	41.1%	24.2%	7.4%	0.8%	1.7%	0.8%	2.2%	15.8%	100.0%
92660	Newport Beach	2,614	58.0%	1.3%	1.5%	3.3%	2.1%	1.9%	2.0%	3.3%	26.7%	100.0%
92629	Dana Point	2,568	4.4%	15.5%	36.7%	6.0%	0.5%	1.2%	0.3%	2.0%	33.4%	100.0%
92620	Irvine	2,373	31.6%	8.2%	4.3%	10.7%	2.5%	10.4%	2.0%	5.1%	25.2%	100.0%
92651	Laguna Beach	1,958	13.5%	8.8%	16.7%	4.6%	0.6%	1.1%	0.5%	2.9%	51.2%	100.0%
92679	Trabuco Canyon	1,775	6.6%	16.3%	38.3%	7.8%	0.3%	2.3%	0.5%	3.8%	24.1%	100.0%
92604	Irvine	1,716	35.8%	6.9%	4.5%	12.4%	2.2%	7.6%	3.0%	3.9%	23.7%	100.0%
92612	Irvine	1,586	42.8%	6.8%	3.2%	9.6%	3.0%	5.1%	1.5%	6.4%	21.6%	100.0%
92663	Newport Beach	1,516	60.2%	0.9%	1.2%	5.3%	1.8%	2.0%	2.0%	2.0%	24.6%	100.0%
92782	Tustin	1,327	24.6%	4.5%	2.9%	11.8%	3.0%	16.7%	2.6%	5.6%	28.3%	100.0%
92614	Irvine	1,299	37.6%	6.9%	3.8%	12.0%	3.2%	6.6%	2.9%	3.0%	23.9%	100.0%
92606	Irvine	1,096	31.8%	6.5%	3.0%	12.8%	4.7%	7.7%	2.0%	5.3%	26.2%	100.0%
92602	Irvine	1,069	31.2%	6.5%	3.5%	11.3%	2.8%	11.4%	2.4%	5.1%	25.7%	100.0%
92618	Irvine	993	35.2%	13.4%	2.9%	13.8%	2.3%	6.4%	3.1%	3.5%	19.2%	100.0%
92625	Corona Del Mar	968	62.4%	1.4%	1.5%	3.1%	2.0%	2.1%	1.0%	2.5%	24.0%	100.0%
92603	Irvine	920	43.5%	5.7%	4.0%	9.8%	2.9%	3.6%	1.7%	3.9%	24.9%	100.0%
92655	Midway City	917	3.4%	0.2%	0.2%	5.0%	30.6%	2.7%	12.9%	4.1%	40.8%	100.0%
92657	Newport Coast	606	52.5%	3.3%	4.3%	5.8%	1.0%	1.8%	0.8%	4.5%	26.1%	100.0%
92861	Villa Park	528	8.5%	0.0%	0.0%	8.1%	1.1%	37.9%	0.6%	6.1%	37.7%	100.0%
92617	Irvine	271	32.1%	5.2%	3.0%	12.9%	3.0%	4.1%	1.1%	25.1%	13.7%	100.0%
92661	Newport Beach	260	70.8%	1.2%	0.0%	2.7%	1.5%	1.9%	1.5%	4.2%	16.2%	100.0%
92662	Newport Beach	227	63.9%	0.9%	2.6%	2.6%	0.0%	0.9%	0.9%	3.1%	25.1%	100.0%
<b>Grand Total</b>		<b>128,351</b>	<b>16.8%</b>	<b>9.6%</b>	<b>9.5%</b>	<b>8.1%</b>	<b>8.0%</b>	<b>6.9%</b>	<b>6.3%</b>	<b>3.8%</b>	<b>31.0%</b>	<b>100.0%</b>

Note: Excludes normal newborns  
Source: OSHPD Patient Discharge Database

- Hoag is the market share leader in twenty-one of the ZIP codes within its service area. In seven of these ZIP codes, Hoag had over 50% of the market share in 2011. The communities represented by these ZIP codes include Newport Beach, Newport Coast, Corona Del Mar, and Costa Mesa.

## Service Availability by Bed Type

The tables on the following pages illustrate existing hospital bed capacity, occupancy, and bed availability for medical/surgical, critical care, obstetrics, pediatrics, and emergency services (FY 2011 data).

### Medical/Surgical Beds

Overall, there is available hospital bed capacity for medical/surgical services in Hoag's service area with a low overall occupancy of approximately 47%.

MEDICAL/SURGICAL BEDS 2011							
Hospital	Miles from Hoag Newport	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Hoag Memorial Hospital Presbyterian <sup>1</sup>	-	X	374	17,181	64,172	175.8	47.0%
Orange Coast Memorial Medical Center	7.3	X	108	7,699	25,264	69.2	64.1%
Coastal Communities Hospital*	7.7	X	88	2,019	9,204	25.2	28.7%
Huntington Beach Hospital*	7.9	X	94	2,872	10,366	28.4	30.2%
Fountain Valley Regional Hospital	9.5	X	201	8,683	37,474	102.7	51.1%
Newport Specialty Hospital	9.9	X	120	294	6,726	18.4	15.4%
Western Medical Center - Santa Ana*	11.3	X	43	3,943	15,155	41.5	96.6%
Hoag Orthopedic Institute*	12.2	X	70	2,933	7,176	19.7	28.1%
Chapman Medical Center*	13.8	X	35	1,118	3,621	9.9	28.3%
Saddleback Memorial Medical Center*	17.7	X	180	13,017	44,479	121.9	67.7%
Mission Hospital Regional Medical Center <sup>2</sup>	22.5	X	317	15,227	53,632	146.9	46.4%
<b>SUB-TOTAL</b>			<b>1,630</b>	<b>74,986</b>	<b>277,269</b>	<b>759.6</b>	<b>46.6%</b>
Kindred Hospital Westminster*	12.2		93	971	30,535	83.7	90.0%
St. Joseph Hospital - Orange	15.2		321	7,759	26,639	73.0	22.7%
University of California Irvine Medical Center	15.6		126	7,437	41,902	114.8	91.1%
West Anaheim Medical Center*	16.2		109	4,379	16,162	44.3	40.6%
Garden Grove Hospital and Medical Center*	16.4		108	3,995	15,892	43.5	40.3%
Western Medical Center - Anaheim*	18.5		11	316	2,376	6.5	59.2%
Kaiser Foundation Hospital - Anaheim*	20.2		213	14,822	55,575	152.3	71.5%
Anaheim Memorial Medical Center	20.8		153	8,932	35,050	96.0	62.8%
Placentia Linda Hospital	21.2		92	2,143	6,737	18.5	20.1%
Los Alamitos Medical Center	21.9		113	7,320	27,253	74.7	66.1%
St. Jude Medical Center*	26.3		160	8,046	34,576	94.7	59.2%
La Palma Intercommunity Hospital*	26.4		91	2,924	10,472	28.7	31.5%
Long Beach Memorial Medical Center	26.5		197	12,661	55,767	152.8	77.6%
<b>Total</b>			<b>3,417</b>	<b>156,691</b>	<b>636,205</b>	<b>1,743</b>	<b>51.0%</b>

Source: OSHPD Disclosure Reports, 2011

<sup>1</sup> Hoag Memorial Hospital Presbyterian and Hoag Hospital Irvine operate under one license. The licensed bed count increased to 401 in FY 2012 due to the stroke unit patients being reclassified from intensive care to medical/surgical

<sup>2</sup> Mission Hospital Regional Medical Center and Mission Hospital Laguna Beach operate under one license

\*Unaudited

- Hoag had over 17,000 inpatient hospital discharges and 64,000 patient days resulting in an occupancy rate of 47%; and

- Hoag's 374 licensed medical/surgical beds represented approximately 23% of the beds in this category for the service area overall.

### ***Critical Care Beds (ICU/CCU)***

There are 306 critical care beds within the service area, with an overall occupancy rate of approximately 58%. Hoag has 67 licensed critical care beds that were 57% occupied on average in 2011 (average daily census of 38.3).

ICU/CCU BEDS 2011							
Hospital	Miles from Hoag Newport	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
<b>Hoag Memorial Hospital Presbyterian<sup>1</sup></b>	-	X	<b>67</b>	<b>1384</b>	<b>13,975</b>	<b>38.3</b>	<b>57.1%</b>
Orange Coast Memorial Medical Center	7.3	X	21	396	5,569	15.3	72.7%
Coastal Communities Hospital*	7.7	X	9	158	1,581	4.3	48.1%
Huntington Beach Hospital*	7.9	X	12	218	2,439	6.7	55.7%
Fountain Valley Regional Hospital	9.5	X	25	509	8,606	23.6	94.3%
Newport Specialty Hospital	9.9	X	15	50	1,748	4.8	31.9%
Western Medical Center - Santa Ana*	11.3	X	34	64	6,949	19.0	56.0%
Chapman Medical Center*	13.8	X	12	256	1,206	3.3	27.5%
Saddleback Memorial Medical Center*	17.7	X	38	495	7,678	21.0	55.4%
Mission Hospital Regional Medical Center <sup>2</sup>	22.5	X	73	1,240	14,746	40.4	55.3%
<b>SUB-TOTAL</b>			<b>306</b>	<b>4,770</b>	<b>64,497</b>	<b>176.7</b>	<b>57.7%</b>
St. Joseph Hospital - Orange	15.2		52	569	7,208	19.7	38.0%
University of California Irvine Medical Center	15.6		88	2,468	17,127	46.9	53.3%
West Anaheim Medical Center*	16.2		20	285	3,685	10.1	50.5%
Garden Grove Hospital and Medical Center*	16.4		12	180	3,158	8.7	72.1%
Western Medical Center - Anaheim*	18.5		22	248	2,516	6.9	31.3%
Kaiser Foundation Hospital - Anaheim*	20.2		42	370	6,202	17.0	40.5%
Anaheim Memorial Medical Center	20.8		32	2,024	12,531	34.3	107.3%
Placentia Linda Hospital	21.2		8	194	1,348	3.7	46.2%
Los Alamitos Medical Center	21.9		17	536	5,859	16.1	94.4%
St. Jude Medical Center*	26.3		92	18,939	3,939	10.8	11.7%
La Palma Intercommunity Hospital*	26.4		8	155	2,031	5.6	69.6%
Long Beach Memorial Medical Center	26.5		61	795	16,994	46.6	76.3%
<b>TOTAL</b>			<b>760</b>	<b>31,533</b>	<b>147,095</b>	<b>403.0</b>	<b>53.0%</b>

Source: OSHPD Disclosure Reports, 2011

<sup>1</sup> Hoag Memorial Hospital Presbyterian and Hoag Hospital Irvine operate under one license. Licensed bed count decreased to 55 in FY 2012 due to stroke unit patients being reclassified to medical/surgical

<sup>2</sup> Mission Hospital Regional Medical Center and Mission Hospital Laguna Beach operate under one license

\*Unaudited

- Fountain Valley Regional Hospital, located approximately 10 miles from Hoag, ran at an occupancy of nearly 95%; and
- The average daily census for all service area hospitals was 176.7 based on nearly 65,000 patient days.

## Obstetrics Beds

As shown below, in 2011, there were 238 obstetrics beds located in the service area with an aggregate occupancy rate of 58%. Hoag reported 70 licensed obstetric beds with a 73% occupancy rate.

LICENSED OBSTETRICS BEDS 2011							
Hospital	Miles from Hoag Newport	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Hoag Memorial Hospital Presbyterian <sup>1</sup>	-	X	70	6,246	18,544	50.8	72.6%
Orange Coast Memorial Medical Center	7.3	X	21	1,635	4,282	11.7	55.9%
Coastal Communities Hospital*	7.7	X	12	1,751	4,213	11.5	96.2%
Fountain Valley Regional Hospital	9.5	X	38	3,239	8,964	24.6	64.6%
Western Medical Center - Santa Ana*	11.3	X	52	2,384	5,879	16.1	31.0%
Mission Hospital Regional Medical Center <sup>2</sup>	22.5	X	45	3,110	8,390	23.0	51.1%
<b>SUB-TOTAL</b>			<b>238</b>	<b>18,365</b>	<b>50,272</b>	<b>137.7</b>	<b>57.9%</b>
St. Joseph Hospital - Orange	15.2		57	5,132	17,685	48.5	85.0%
University of California Irvine Medical Center	15.6		50	1,584	5,436	14.9	29.8%
Garden Grove Hospital and Medical Center*	16.4		35	1,937	4,103	11.2	32.1%
Western Medical Center - Anaheim*	18.5		21	1,773	3,639	10.0	47.5%
Kaiser Foundation Hospital - Anaheim*	20.2		64	5,273	8,001	21.9	34.3%
Anaheim Memorial Medical Center	20.8		27	1,822	4,753	13.0	48.2%
Los Alamitos Medical Center	21.9		12	1,620	3,703	10.1	84.5%
St. Jude Medical Center*	26.3		51	2,216	6,144	16.8	33.0%
La Palma Intercommunity Hospital*	26.4		25	229	486	1.3	5.3%
<b>TOTAL</b>			<b>580</b>	<b>39,951</b>	<b>104,222</b>	<b>285.5</b>	<b>49.2%</b>

Source: OSHPD Disclosure Reports, 2011

<sup>1</sup> Hoag Memorial Hospital Presbyterian and Hoag Hospital Irvine operate under one license

<sup>2</sup> Mission Hospital Regional Medical Center and Mission Hospital Laguna Beach operate under one license

\*Unaudited

Because Hoag does not have a Medi-Cal or CalOptima contract and many of the obstetricians on staff do not contract with CalOptima, only 12% of Hoag's obstetrics patients were covered by Medi-Cal.

OB Payer Mix 2011						
	Hoag		Hoag Service Area		Orange County	
	Discharges	% of Discharges	Discharges	% of Discharges	Discharges	% of Discharges
Commercial Insurance - PPO	4130	64.58%	5972	30.50%	11947	29.48%
Commercial Insurance - HMO	1353	21.16%	5781	29.53%	11261	27.79%
Medi-Cal - FFS	495	7.74%	4426	22.61%	8366	20.65%
Medi-Cal - Managed	264	4.13%	2104	10.75%	5799	14.31%
Commercial Insurance - FFS	46	0.72%	603	3.08%	1312	3.24%
Other	107	1.68%	692	3.53%	1838	4.54%
<b>TOTAL</b>	<b>6,395</b>	<b>100%</b>	<b>19,578</b>	<b>100%</b>	<b>40,523</b>	<b>100%</b>

Source: OSPHD 2011

## *Pediatric Beds*

Hoag does not have any licensed pediatric beds. Hoag entered into a formal affiliation agreement with Children’s Hospital of Orange County (“CHOC”) that resulted in the expansion of Hoag’s pediatric outpatient services and helped to create an expedited system of evaluating and transferring critically ill or injured children and infants to CHOC.

The Hoag/CHOC affiliation encompasses a few key elements related to pediatric services as outlined below:

- Through the use of robotic telemedicine technology, CHOC critical care specialists are available to assist Hoag emergency medicine physicians on a 24-hour basis in the evaluation and treatment of pediatric patients in the Hoag Emergency Department;
- The facilitated transference of Hoag emergency pediatric patients to CHOC with a CHOC transport team consisting of a physician, nurse, and respiratory therapist;
- CHOC neonatologists provide 24-hour coverage and support at the Hoag neonatal intensive care unit. As the obstetric and perinatal programs in the Women’s Health Services at Hoag continue to grow, the role of the CHOC neonatologists is to care for and manage newborn children with critical illnesses born at Hoag. Additionally, CHOC will provide support and education for the areas that work closely with the newborn services, such as respiratory therapy, pharmacy, and dietary and nutrition; and
- CHOC expanded outpatient pediatric specialty care services to Hoag Health Center-Newport Beach where the following services are offered:
  - Cardiology;
  - Gastroenterology;
  - Genetics;
  - Hematology;
  - Infectious diseases;
  - Nephrology;
  - Neurology; and
  - Pulmonology.

## Chemical Dependency Beds

As shown below, in 2011, there were 62 chemical dependency beds in the service area with an aggregate occupancy rate of 77%. Hoag reported 21 licensed chemical dependency beds with a 61% occupancy rate. Mission Hospital Regional Medical Center reported an occupancy rate of 172% on 10 licensed beds. The average daily census for licensed chemical dependency beds in the service area was 48 patients per day.

CHEMICAL DEPENDENCY BEDS 2011							
Hospital	Miles from Hoag Presbyterian	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Hoag Memorial Hospital Presbyterian <sup>1</sup>	-	X	21	477	4,710	12.9	61.4%
College Hospital Costa Mesa	3.0	X	3	454	2,111	5.8	192.8%
Chapman Medical Center*	13.8	X	28	354	4,310	11.8	42.2%
Mission Hospital Regional Medical Center <sup>2</sup>	22.5	X	10	962	6,298	17.3	172.5%
<b>TOTAL</b>			<b>62</b>	<b>2,247</b>	<b>17,429</b>	<b>47.8</b>	<b>77.0%</b>

Source: OSHPD Disclosure Reports, 2011

<sup>1</sup> Hoag Memorial Hospital Presbyterian and Hoag Hospital Irvine operate under one license

<sup>2</sup> Mission Hospital Regional Medical Center and Mission Hospital Laguna Beach operate under one license

\*Unaudited

## Neonatal Intensive Care Beds

As shown below, the occupancy rate for neonatal intensive care services for the service area hospitals is nearly 63% based on 83 licensed beds. Hoag has 21 licensed neonatal intensive care beds with a reported occupancy rate of approximately 75%. Western Medical Center - Santa Ana had an occupancy rate of 93%.

NEONATAL ICU SERVICES 2011							
Hospital	Miles from Hoag Newport	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Hoag Memorial Hospital Presbyterian <sup>1</sup>	-	X	21	400	5,719	15.7	74.6%
Orange Coast Memorial Medical Center	7.3	X	12	228	1,578	4.3	36.0%
Fountain Valley Regional Hospital	9.5	X	23	518	6,274	17.2	74.7%
Western Medical Center - Santa Ana*	11.3	X	8	252	2,704	7.4	92.6%
Saddleback Memorial Medical Center*	17.7	X	19	179	2,768	7.6	39.9%
<b>SUB-TOTAL</b>			<b>83</b>	<b>1,577</b>	<b>19,043</b>	<b>52.2</b>	<b>62.9%</b>
Children's Hospital of Orange County*	15.1		54	909	11,915	32.6	60.5%
Garden Grove Hospital and Medical Center*	16.4		12	148	1,066	2.9	24.3%
Western Medical Center - Anaheim*	18.5		5	123	740	2.0	40.5%
Kaiser Foundation Hospital - Anaheim*	20.2		20	388	5,107	14.0	70.0%
Anaheim Memorial Medical Center	20.8		11	152	2,857	7.8	71.2%
Children's Hospital at Mission*	22.5		16	268	4,456	12.2	76.3%
St. Jude Medical Center*	26.3		14	212	2,354	6.4	46.1%
<b>TOTAL</b>			<b>215</b>	<b>3,777</b>	<b>47,538</b>	<b>130.2</b>	<b>60.6%</b>

Source: OSHPD Disclosure Reports, 2011

<sup>1</sup> Hoag Memorial Hospital Presbyterian and Hoag Hospital Irvine operate under one license

\*Unaudited

## Emergency Department Volume at Hospitals in the Service Area

Hoag's Newport Beach hospital had 35 Emergency Department ("ED") stations. As shown below, in 2011, Hoag had 66,109 visits totaling 16.7% of the visits among area hospitals (284,884 total visits). In 2012, Hoag's Newport Beach hospital added 23 ED stations. In total, there are currently 236 ED stations among service area hospitals.

In 2011, Hoag Hospital Irvine had 14 ED stations and reported a total of 24,568 visits, amounting to 13.7% of the total visits among area hospitals.

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2011													
Hospital	Miles from Hoag Newport	Within the Service Area	ER Level	Stations	Total Visits	Minor	Low/Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion	
Hoag Memorial Hospital Presbyterian	-	X	Basic	35	66,109	20,436	28,382	16,327	644	320	16.7%	7	
Orange Coast Memorial Medical Center	7.3	X	Basic	14	27,089	252	8,166	9,961	7,873	837	26.1%	205	
Coastal Communities Hospital	7.7	X	Basic	10	20,453	2,302	8,344	3,773	2,758	3,276	9.6%	54	
Huntington Beach Hospital	7.9	X	Basic	12	17,843	296	1,082	6,112	3,320	7,033	11.0%	0	
Fountain Valley Regional Hospital	9.5	X	Basic	20	39,422	1,479	1,805	10,486	3,550	11,302	25.2%	322	
Western Medical Center - Santa Ana	11.3	X	Basic	20	20,527	913	8,629	5,570	2,972	2,443	21.1%	301	
Hoag Hospital - Irvine	12.2	X	Basic	14	24,568	7,994	14,606	1,813	126	29	13.7%	0	
Chapman Medical Center	13.8	X	Basic	7	8,716	1,148	3,512	2,451	1,172	433	13.1%	357	
Mission Hospital - Laguna Beach	14.8	X	Basic	12	11,602	843	2,440	1,918	2,923	3,478	25.8%	30	
Saddleback Memorial Medical Center	17.7	X	Basic	31	33,291	382	7,503	11,181	3,942	10,283	24.5%	419	
Mission Hospital Reg. Med. Cntr.-Mission Viejo	22.5	X	Basic	38	39,832	2,813	8,705	7,131	9,349	11,834	27.1%	320	
<b>SUB-TOTAL</b>				<b>213</b>	<b>284,884</b>	<b>38,858</b>	<b>93,174</b>	<b>76,723</b>	<b>38,629</b>	<b>51,268</b>	<b>21.5%</b>	<b>2,015</b>	
Children's Hospital of Orange County	15.1		Basic	53	54,839	9,439	19,589	15,661	3,550	969	10.3%	28	
St. Joseph Hospital - Orange	15.2		Basic	65	55,297	1,092	10,605	21,504	11,504	10,592	16.3%	29	
University of California Irvine Medical Center	15.6		Comprehensive	38	35,543	2,315	6,981	11,403	7,971	6,873	24.7%	476	
West Anaheim Medical Center	16.2		Basic	23	29,885	787	2,115	11,064	7,871	8,048	19.3%	0	
Garden Grove Hospital and Medical Center	16.4		Basic	12	25,772	402	2,825	2,531	8,489	5,525	14.6%	0	
Western Medical Center - Anaheim	18.5		Basic	11	17,246	3,574	6,847	3,201	2,119	1,505	17.3%	711	
Kaiser Foundation Hospital - Anaheim	20.2		Basic	21	42,164	236	6,120	30,807	6,987	1,014	13.1%	384	
AHMC Anaheim Regional Medical Center	20.8		Basic	21	41,782	2,615	15,297	10,098	9,496	4,276	24.9%	299	
Placentia Linda Hospital	21.2		Basic	10	23,533	1,091	1,348	8,363	8,022	4,709	11.8%	5	
Los Alamitos Medical Center	21.9		Basic	20	29,875	1,516	1,261	7,477	9,571	10,050	21.0%	618	
Children's Hospital at Mission	22.5		Basic	38	17,155	0	7,610	6,222	2,052	0	7.4%	318	
St. Jude Medical Center	26.3		Basic	36	55,645	1,001	1,686	20,802	20,039	12,117	14.7%	50	
La Palma Intercommunity Hospital	26.4		Basic	10	14,614	411	1,029	3,986	4,290	4,898	22.7%	0	
Long Beach Memorial Medical Center	26.5		Basic	44	53,734	482	10,605	18,341	18,074	6,232	27.5%	1,533	
<b>TOTAL</b>				<b>615</b>	<b>781,968</b>	<b>63,819</b>	<b>187,092</b>	<b>248,183</b>	<b>158,664</b>	<b>128,076</b>	<b>10.2%</b>	<b>6,466</b>	

Source: OSHFD Airls Annual Utilization Reports, MapPoint

## Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians, have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an ED. Based upon this benchmark, in 2011, Hoag's Newport Beach hospital's ED was operating at 95% of its 35-bed capacity. ED capacity at Orange Coast Memorial Medical Center (97%) and Coastal Communities Hospital (102%) is also overburdened. Overall, area hospitals are at approximately 73% of capacity.

EMERGENCY DEPARTMENT CAPACITY 2011							
Hospital	Miles from Hoag Newport	Within Service Area	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
<b>Hoag Memorial Hospital Presbyterian</b>	-	X	<b>Basic</b>	<b>35</b>	<b>66,109</b>	<b>70,000</b>	<b>3,891</b>
Orange Coast Memorial Medical Center	7.3	X	Basic	14	27,089	28,000	911
Coastal Communities Hospital	7.7	X	Basic	10	20,453	20,000	(453)
Huntington Beach Hospital	7.9	X	Basic	12	17,843	24,000	6,157
Fountain Valley Regional Hospital	9.5	X	Basic	20	39,422	40,000	578
Western Medical Center - Santa Ana	11.3	X	Basic	20	20,527	40,000	19,473
<b>Hoag Hospital - Irvine</b>	<b>12.2</b>	<b>X</b>	<b>Basic</b>	<b>14</b>	<b>24,568</b>	<b>28,000</b>	<b>3,432</b>
Chapman Medical Center	13.8	X	Basic	7	8,716	14,000	5,284
Mission Hospital - Laguna Beach	14.8	X	Basic	12	11,602	24,000	12,398
Saddleback Memorial Medical Center	17.7	X	Basic	31	33,291	62,000	28,709
Mission Hospital Regional Medical Center	22.5	X	Basic	38	39,832	76,000	36,168
<b>SUB-TOTAL</b>				<b>213</b>	<b>309,452</b>	<b>426,000</b>	<b>116,548</b>
Children's Hospital of Orange County	15.1		Basic	53	54,839	106,000	51,161
St. Joseph Hospital - Orange	15.2		Basic	65	55,297	130,000	74,703
University of California Irvine Medical Center	15.6		Comprehensive	38	35,543	76,000	40,457
West Anaheim Medical Center	16.2		Basic	23	29,885	46,000	16,115
Garden Grove Hospital and Medical Center	16.4		Basic	12	25,772	24,000	(1,772)
Western Medical Center - Anaheim	18.5		Basic	11	17,246	22,000	4,754
Kaiser Foundation Hospital - Anaheim	20.2		Basic	21	42,164	42,000	(164)
Anaheim Memorial Medical Center	20.8		Basic	21	41,782	42,000	218
Placentia Linda Hospital	21.2		Basic	10	23,533	20,000	(3,533)
Los Alamitos Medical Center	21.9		Basic	20	29,875	40,000	10,125
Children's Hospital at Mission	22.5		Basic	38	17,155	76,000	58,845
St. Jude Medical Center	26.3		Basic	36	55,645	72,000	16,355
La Palma Intercommunity Hospital	26.4		Basic	10	14,614	20,000	5,386
Long Beach Memorial Medical Center	26.5		Basic	44	53,734	88,000	34,266
<b>TOTAL</b>				<b>615</b>	<b>806,536</b>	<b>1,230,000</b>	<b>423,464</b>

Source: OSHPD A1irts Annual Utilization Reports, MapPoint

## SUMMARY OF INTERVIEWS

In November and December of 2012, both in-person and telephone interviews were conducted with representatives of Hoag, SJHS, SJHS SC Hospitals, CalOptima, the Orange County Health Services Agency, physicians, health plan representatives, and others. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability or accessibility as a result of the proposed transaction between Hoag and SJHS. The major findings are summarized below.

### *Reasons for the Transaction*

Those interviewed cited a number of reasons for the importance of the transaction including the following:

- The 2010 Federal Patient Protection and Affordable Care Act is changing the provider payment model for healthcare services to encourage better coordination, higher quality, and lower cost. In response, many hospitals, health systems, physicians, and others are forming partnerships and “integrated delivery systems” to develop the resources and expertise to successfully adjust to these changes. As the initiatives of the 2010 Federal Patient Protection and Affordable Care Act encourage “population health management” and lower cost, providers need to develop broad geographic coverage and a coordinated approach for delivering comprehensive healthcare services;
- Orange County, unlike other highly populated counties in California, does not have a County government system of hospitals and clinics. As such, private nonprofit and for-profit hospitals are responsible for providing healthcare services to the medically indigent and Medi-Cal patients. Without an organized County system of care, the burden shifts to private healthcare providers. Hoag and SJHS believe their affiliation will lead to an enhanced ability to support the safety net and provide better access to services for the vulnerable and medically underserved;
- The future model for healthcare delivery will involve competition between integrated delivery systems. On its own, Hoag would not be successful in the long term unless it were part of a larger, more geographically dispersed system in Orange County, like Kaiser, Memorial Health System, or SJHS. As these organizations become increasingly competitive and successful, Hoag would be less able to compete as an independent organization;
- Covenant can have advantages similar to the larger more integrated delivery systems that include:
  - An ability to attain efficiencies due to scale and size;

- An ability to support hospital-physician alignment strategies to recruit and retain physicians;
- An ability to invest in new services and models of care such as “population health management” and “medical homes”;
- An ability to partner with healthcare payers, insurance companies, and employers in new models of accountable care;
- A better ability to plan, organize, and support a countywide network of community clinics and health centers;
- An ability to create a countywide system for specialty services and clinical Centers of Excellence (e.g., cancer, heart, neurosciences, etc.);
- An ability to negotiate better contracts for services, equipment, supplies, and other operational expenses;
- An improved ability to rationalize services and plan for capital expenses;
- An enhanced ability to access capital; and
- An ability to negotiate more favorable managed care contracts.

### ***Selection of SJHS as the Affiliation Partner***

Hoag concluded that it needed to form a partnership with a regional healthcare system in order to develop a sustainable healthcare delivery model for the poor and vulnerable and to be competitive in the long term. Hoag selected SJHS because both are large, well respected, and successful organizations in Orange County and are faith-based. Through numerous meetings and discussions among senior management and the board members, both organizations came to similar understandings about the future direction of healthcare and what was needed to serve the poor and vulnerable populations of Orange County. Other affiliation alternatives for Hoag were considered and believed not to provide the same compatibility of mission, vision, culture, healthcare delivery models, location, and business models as SJHS.

All interviewed were supportive of the transaction. Many recognized that both organizations were currently large providers and supporters of care for the poor and were encouraged that they were joining together to foster the provision of healthcare in a more sustainable way for the poor and vulnerable.

Some of those interviewed, who were not directly affiliated with Hoag or SJHS, expressed concern that:

- Joining the organizations together would create a larger, more integrated delivery system. As such, it would have additional leverage that could drive the price for services higher

for managed care contracts covering commercially insured and Medicare Advantage populations; and

- Even with approval of the proposed affiliation, Hoag may not take a more active role in participating with Medi-Cal and CalOptima.

Those mentioning these concerns, however, were still supportive of the affiliation and believed that overall there could be significant benefits for the populations served.

- No one interviewed expressed any concern about the elimination of services or a reduction in the accessibility or availability of healthcare services. Many interviewed stated their belief that, as a result of the affiliation, the organizations would be able to offer more accessible and higher quality services to the community.

### ***Importance of the Hospital to the Community***

According to those who were interviewed, Hoag is a very important provider of healthcare services to both the local community and the greater Orange County area. It is the largest hospital provider of services in the service area and in Orange County, and the market leader in most service lines. It is essential that Hoag continue to offer its complete array of services to the community.

It is especially important for its emergency services, women's services, and other services provided by its different Institutes, including cancer, heart and vascular, neurosciences, and orthopedic (through the Hoag Orthopedic Institute joint venture). It is also a significant provider of services to the "safety net" through its emergency room and through the funding and support of the clinics that are delivering services to the uninsured and underinsured. Hoag also makes an important and significant contribution to community benefit services.

If Hoag did not maintain its current level of healthcare services, severe accessibility and availability problems would be created.

### ***Expectations and Goals of the Affiliation***

Many of those interviewed mentioned and supported what they understood as the major reasons, expectations, and goals for the affiliation including:

- The affiliation is primarily being driven by a shared mission of supporting the safety net in Orange County and creating a population health management model;
- A desire to transform the healthcare delivery system in Orange County;
- Developing a community network of care that brings a coordinated approach to prevention, acute care, and rehabilitation and recovery services;

- Improving and sustaining “safety net” services for the poor and vulnerable;
- Expanding access to primary care and medical homes throughout Orange County;
- Expanding or creating improved clinical centers of excellence;
- Developing “population health management” models that would increase the value proposition to payers and consumers by improving quality and reducing cost;
- Acting as the population health manager for one million of the over three million people in Orange County;
- Building better alignment between Hoag, SJHS SC Hospitals, and the physicians;
- Partnering with CalOptima to deliver services to the medically indigent and Medi-Cal patients; and
- Partnering with health plans and employers to reduce healthcare cost inflation and improve quality in “accountable care organization” models and “narrow networks.”

While there was significant agreement regarding the intentions of the affiliation, there was not an awareness among most of those interviewed of the specific plans or commitments to actions that would achieve these goals. Indeed, the Affiliation Agreement does not set forth specific plans on how its proposed mission, objectives, and purposes would be achieved.

### ***Views of Regional Health Plan Representatives***

Those interviewed expressed an understanding of the reasons for Hoag’s affiliation with SJHS. All agreed that the 2010 Federal Patient Protection and Affordable Care Act and changes in the marketplace were pushing the healthcare delivery system in the direction of population health management models. All agreed that this was necessary to “bend the cost curve” and improve quality. All were supportive of the affiliation based upon Hoag’s and SJHS’s stated intentions. The representatives interviewed believed that it was necessary for Hoag to affiliate with another system in order to ensure its future position in the healthcare marketplace and felt that the affiliation may in fact beneficially balance and increase competition in the face of the growth of other systems such as Kaiser Permanente, Memorial Care Health System, and University of California Irvine Medical Center. Some skepticism was expressed about the ability of Covenant to reduce costs. However, Hoag was given credit for its recent efforts to change the “value equation” even when it meant being reimbursed less for delivering services in lower cost ambulatory settings. All interviewees also hoped that the future model would indeed be a collaboration with payers and not result in additional leverage for rate negotiation that could result in increased cost to employers and consumers.

## ***Views of CalOptima and Orange County Health System Agency***

The representatives of CalOptima and the County were supportive of the affiliation and expressed the following:

- Both organizations have shown a strong commitment to the safety net in the past by supporting community clinics and health centers in their delivery of services to the poor and by their other community benefit efforts;
- The commitment from both organizations is especially important since there is no County Hospital or system of clinics similar to other populated California counties. The nonprofit, for-profit, and academic hospital system in Orange County are felt to be the backbone of the safety net;
- The affiliation is a stabilizing and strengthening move for SJHS and Hoag that will ensure the provision of high quality healthcare services in Orange County. Population health management cannot be accomplished without collaborative efforts;
- While Hoag does not currently contract for Medi-Cal patients through CalOptima, SJHS does. Those interviewed hope that as a result of the affiliation with SJHS, a contract with Hoag may be established in the future;
- Hoag has a contract with the Orange County Medical Services Initiative for low-income patients who do not qualify for Medi-Cal; and
- Hoag does provide services to both Medi-Cal and Orange County Medical Services Initiative patients who enter through the ED, are admitted by CalOptima-contracted physicians, or are referred by the SOS Clinic.

### ***Impact on Availability or Accessibility***

None of those interviewed believed that the affiliation would have a negative overall impact on the availability or accessibility of healthcare services. In fact, it was believed that the affiliation would improve the availability and accessibility of healthcare services. The only concern expressed about services was in regard to access for women's reproductive services. Some who were interviewed were unsure if there would be a prohibition on certain services because of the affiliation with a Catholic healthcare organization.

### ***Opposition to the Affiliation***

Although there is confusion in general about the specific business structure of the affiliation and various associated issues, no one who was interviewed was opposed to the affiliation or was aware of any significant opposition.

## **ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES**

### ***Continuation of Hoag as a General Acute Care Hospital***

None of the parties to the transaction expect that there will be any reductions in the availability or accessibility of healthcare services. It is expected that as a result of the transaction, Hoag will continue to operate as a nonprofit hospital in much the same manner as in the past. It is expected that there will be an increase in the number of locations that provide outpatient services and an increase in the amount of services provided. As a result, access and availability will improve.

### ***Emergency Services***

With 72 emergency treatment stations at its two locations and approximately 105,000 visits in FY 2012, Hoag has the largest ED volume in the County. Keeping Hoag's ED open is critical to providing adequate emergency services in the service area.

### ***Medical/Surgical Services***

An analysis of the current supply and demand for area hospital beds shows that there is an oversupply of medical/surgical beds in the service area, with area occupancy rates below 47%. Even though there is an oversupply of medical/surgical beds in the market, Hoag is an important provider of medical/surgical services with 401 licensed beds and an average daily census of approximately 176 patients.

### ***Intensive Care/Coronary Care Services***

Hoag has a relatively high occupancy rate (about 74%) of its 43 licensed Intensive Care Unit/Coronary Care Unit beds, which are an important resource for supporting the ED and other surgical and medical services at the two hospitals.

### ***Obstetrics Services***

Hoag has a relatively high occupancy of 73% on its 70 obstetrical beds. With over 6,000 deliveries, Hoag is the biggest obstetrical service provider in Orange County.

### ***Neonatal Intensive Care Beds***

Hoag operates 21 licensed neonatal intensive care beds (25% of area beds) with a relatively high occupancy of approximately 75%. Hoag is an important provider of these services.

## ***Chemical Dependency Beds***

There are few licensed chemical dependency beds in the service area and all run at high occupancy. Hoag has 21 beds (over one-third of area licensed beds) and operates at 61% occupancy. As such, Hoag is an important provider of these chemical dependency recovery services to the community.

## ***Reproductive Health Services***

The Women's Health Institute is an important provider of a comprehensive range of services for women, including those related to reproductive health, such as fertility/infertility, contraception, sterilization, high-risk pregnancy, etc. Some of these services provided are prohibited by the Ethical and Religious Directives (ERDs) of the Catholic Church. As set forth in the Affiliation Agreement, Hoag is not bound to the ERDs. However, Hoag will be subject to the Statement of Common Values that prohibits direct abortions. Direct abortions are currently performed on 50-100 patients per year. At least 50% of these direct abortions are due to "a non-viable fetus and/or fetal abnormalities." Hoag will refer patients seeking a direct abortion to other nearby providers such as Planned Parenthood or the University of California Irvine Medical Center that provides healthcare services for high-risk pregnancies. Because of the small number of patients affected and because these services are available nearby in the service area, the impact on accessibility and availability of such services is small.

## ***Effects on Services to Medi-Cal, County Indigent, and Other Classes of Patients***

Approximately 11% of the population in Hoag's service area is eligible for Medi-Cal (low compared to the statewide average of 20%). Medi-Cal patients access healthcare through CalOptima which contracts with physicians and hospitals to provide services. Hoag does not have a contract with CalOptima to treat Medi-Cal patients. It does have some limited service specific CalOptima agreements for seeing OneCare patients (special needs seniors) and some specialty services. Because most of the Hoag medical staff do not have Medi-Cal contracts, most of the Medi-Cal patients seen at Hoag enter through the ED. As a result, Hoag sees only about 4% of the CalOptima patients who are admitted to Orange County hospitals. Hoag's payer mix of Medi-Cal patients is low at 5.3%.

Like all Orange County hospitals, Hoag does have a contract with Orange County for County Indigent patients and such patients account for 1.5% of Hoag admissions.

Because Hoag does not currently have a CalOptima contract, the affiliation will not have a negative impact or change the access for Medi-Cal patients. As a result of the affiliation with SJHS, it is possible that Hoag's role with CalOptima may be expanded.

The contract for Orange County Medical Services Initiative patients is not expected to change until 2014 when the Orange County Medical Services Initiative program is expected to operate under CalOptima. If Hoag does not contract with CalOptima, access for Orange County Medical Services Initiative patients may then be affected.

### ***Effects on the Level and Type of Charity Care Historically Provided***

Hoag has historically provided a significant amount of charity care averaging approximately \$9.3 million per year, over the last five years. While Hoag is likely to continue providing similar charity care support, it has not made that commitment in the Affiliation Agreement.

### ***Effects on Community Benefit Programs***

Hoag has historically provided a significant amount of community benefit services, averaging \$9.5 million per year in costs (including in kind services) over the last five years. While Hoag is likely to continue providing similar community benefit services, it has not made that commitment in the Affiliation Agreement.

### ***Effects on Staffing and Employee Rights***

SJHS and Hoag are separate and distinct employers and nothing in the Affiliation Agreement alters or affects their status as separate and distinct employers, nor does it affect their relationships with each of their bargaining units within their operations or the labor organizations that represent such units. SJHS and Hoag shall each retain control of labor relations within their organizations and therefore no effect is expected. It is likely that some efficiencies from the affiliation may result in the elimination of some jobs. However, expansions of healthcare and new service opportunities are likely to create growth in employment positions.

### ***Effects on Medical Staff***

Individual hospitals within Covenant will continue to maintain separate independent medical staffs, and therefore no changes are anticipated as a result of the affiliation.

### ***Alternatives***

The Hoag Board determined that this affiliation was necessary in order to better fulfill its mission and provide services to the community in light of the 2010 Federal Patient Protection and Affordable Care Act and changes in the marketplace. The affiliation is not being driven out of a near term financial or strategic necessity. As such, if this transaction were not approved, it is likely that Hoag would continue to operate in its current structure and reevaluate other alternatives for health system development or affiliation. However, other alternatives were not believed to offer the same advantages as the affiliation with SJHS.

## CONCLUSIONS

Overall, the proposed affiliation of Hoag with SJHS is likely to continue to improve the availability and accessibility of healthcare services in the community served. It is anticipated that access for Medi-Cal, uninsured patients, and other classes of patients will either remain unchanged or improve. Furthermore, Hoag and SJHS plan to develop and expand population health models that should lead to improvements in the healthcare delivery system and reduce the rate of healthcare cost increases.

### ***Potential Conditions for Transaction Approval by the California Attorney General***

The following recommended conditions for approval have been developed as a result of this analysis and the factors that the Attorney General must consider in determining whether to consent to a transaction as set forth in Corporations Code section 5923 and section 999.5 of title 11 of the California Code of Regulations. If the Attorney General approves the proposed transaction, Medical Development Specialists, LLC recommends that the following conditions be required in order to minimize any potential negative health impact that might result from the transaction:

- 1) For at least five years from the closing date of the transaction, Hoag should continue to operate as a nonprofit general acute care hospital;
- 2) Hoag should maintain 24-hour emergency medical services at no less than current licensure (72 treatment stations) with the same types and levels of services for at least five years from the closing date of the transaction;
- 3) For at least five years from the closing date of the transaction, Hoag should maintain the current licensure, types and levels of services for the following:
  - a. Intensive Care Unit/Coronary Care Unit services, including a minimum of 43 beds;
  - b. Obstetrical services, including a minimum of 70 beds;
  - c. Neonatal Intensive Care services, including a minimum of 21 beds; and
  - d. Chemical Dependency Recovery services, including a minimum of 21 beds.
- 4) Hoag should maintain its charity care and collection policies and should provide an annual amount of charity care equal to or greater than \$9,261,028 million (the “Minimum Charity Care Amount”) for at least five years from the closing date of the transaction. For purposes hereof, the term “Charity Care” shall mean the amount of charity care costs (not charges) incurred by Hoag in connection with operations and provision of services.

The definition and methodology for calculating “charity care” and the methodology for calculating “cost” shall be the same as that used by OSHPD for annual hospital reporting purposes. The Minimum Charity Care Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for Los Angeles-Riverside-Orange County, California;

- 5) Hoag should continue to expend on average of no less than \$9.5 million annually in community benefit services (inclusive of in-kind services) for at least five years from the closing date of the transaction. This amount should be increased annually based on the Consumer Price Index for Los-Angeles-Riverside-Orange County, California;
- 6) Hoag should maintain its Orange County Medical Services Initiative contract with Orange County for at least five years from the closing date or until Orange County Medical Services Initiative transitions to CalOptima, whichever occurs earlier. It should also establish a contract with CalOptima and continue to maintain its agreements for special services for at least five years from the closing date;
- 7) Hoag should continue to provide the same Women’s Health Services (except for direct abortions) for at least five years from the closing date of the transaction. The Hoag Women’s Health Committee of its Board should oversee and approve the budget with at least current levels of financial support (increased by the Consumer Price Index) independently of Covenant; and
- 8) Hoag should continue to maintain its health centers with the same level of service for at least five years from the closing date of the transaction; and
- 9) Within one year of the closing date of the transaction, Covenant should present a three year integrated strategic and capital plan for population health management and care for the poor and vulnerable to the Attorney General that is approved by the Covenant Board. Within the plan, Covenant should specifically address the following:
  - a. The service delivery and reimbursement models for Covenant population health management initiatives with payers (including commercial managed care, Medicare, and Medi-Cal);
  - b. Covenant’s plan to partner and contract with CalOptima and the County of Orange Health Systems Agency;
  - c. The facility plans and capital and operating budgets for developing community clinics, medical homes, and health centers;
  - d. The human resource and financial support that Covenant will provide to Federally Qualified Health Centers and non-affiliated community clinics;
  - e. The sources and uses of capital and operating funds for the integrated strategic and capital plan; and

- f. How Covenant, Hoag, SJHS, and SJHS SC Hospitals will meet the “Mission Objectives” set forth in 1.2 of the Affiliation Agreement, the five “Moral Imperatives” set forth in Exhibit A of the Affiliation Agreement, and Covenant’s primary purpose set forth in section 2.1.3 of the Affiliation Agreement.

***Recommended Action***

If the California Attorney General approves the proposed transaction, Medical Development Specialists, LLC recommends that the preceding conditions be required in order to minimize any potential negative health impact that might result from the transaction.

## APPENDICES

Interviews were conducted with the following people:

Last Name	First Name	Position	Affiliation
Afable	Richard	MD President & Chief Executive Officer	Hoag Memorial Hospital Presbyterian
Andrizzi	Flynn	President	Hoag Foundation
		Senior Vice President	Hoag Memorial Hospital Presbyterian
Belmont	Terry	Chief Executive Officer	University of California Irvine
Braithwaite	Robert	Chief Operating Officer	Hoag Memorial Hospital Presbyterian
Brooks	Allyson	MD Executive Medical Director, Women's Health Institute	Hoag Memorial Hospital Presbyterian
Burke	C.R.	President & Chief Executive Officer	St. Joseph Heritage Healthcare
Burt	John	Member	Association of Prebyterian Members
Cripe	Kimberly	President & Chief Executive Officer	Children's Hospital of Orange County
DaVilla	Juan	Senior Vice President Network Management	Blue Shield Of California
Fee	Martin	MD Chief of Staff Elect	Hoag Memorial Hospital Presbyterian
Gielow	Tom	Member	Association of Prebyterian Members
Jones	Stephen	Board Chairman	Hoag Memorial Hospital Presbyterian
Lindsay	Stephen	MD Chief of Staff	Hoag Memorial Hospital Presbyterian
Mitzner	Jennifer	Senior Vice President Corporate Services &	Hoag Memorial Hospital Presbyterian
		Chief Financial Officer	
Montalvo	Darrin	Executive Vice President	St. Joseph Health System
Noce	Walter	Chariman of the Board of Trustees	St. Joseph Health System
Penrose	Lee	Chief Executive Officer	St. Jude Medical Center
		Board Vice Char	CalOptima
Proctor	Deborah	President & CEO	St. Joseph Health System
Refowitz	Mark	Board Chairman	CalOptima
		Director	County of Orange County Health System Agency
Ruane	Michael	Interim Chief Executive Officer	CalOptima
Schisler	Brenda	Member	Association of Prebyterian Members
Schwefler	Ernie	Regional Vice President	Anthem Blue Cross
Siebert	Gregory	Vice President, Network Management	UnitedHealthcare
Smith	Charles	Executive Director/Secretary	George Hoag Family Foundation
Smith	Melinda	Board Member	George Hoag Family Foundation
Stephens	Michael	Member	Community Benefits Committee of Hoag Board
Ueberroth	Ginny	Board Member	Hoag Memorial Hospital Presbyterian

A copy of Hoag's hospital license is below:

Licensed Capacity: 588

**State of California**  
**Department of Public Health**

In accordance with applicable provisions of the Health and Safety Code of California and its rules and regulations, the Department of Public Health hereby issues

*this License to*

**Hoag Memorial Hospital Presbyterian**  
to operate and maintain the following **General Acute Care Hospital**

**HOAG MEMORIAL HOSPITAL PRESBYTERIAN**  
1 Hoag Dr  
Newport Beach, CA 92663-4162

**HOAG HOSPITAL IRVINE**  
16200 Sand Canyon Ave  
Irvine, CA 92618-3714

Bed Classifications/Services	Other Approved Services
484 General Acute Care	Basic Emergency
70 Perinatal Services	Cardiovascular Surgery
31 Intensive Care	Mobile Unit - Lithotripsy
21 Chemical Dependency Recovery	Nuclear Medicine
21 Intensive Care Newborn Nursery	Occupational Therapy
12 Coronary Care	Outpatient Services - Blood Donor Services at 510 Superior Ave., Suite 130, Newport Beach
329 Unspecified General Acute Care	Outpatient Services - Brachytherapy
	Outpatient Services - Cancer Center at One Hoag Dr., Bldg. 41, Newport Beach
	Outpatient Services - Cardiac Rehabilitation at 520 Superior Ave., Suite 100, Newport Beach
	Outpatient Services - Ctr. for Primary Care Medicine at 500 Superior Ave., Suite 305, Newport Beach
	Outpatient Services - Gamma Knife Services at One Hoag Dr., Bldg. #47, Newport Beach
	Outpatient Services - HHCNB Rehabilitation Services at 520 Superior Ave., Suite 100, Newport Beach

(Additional Information Listed on License Addendum)

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, Orange County District Office, 681 S Parker St, Ste 200, Orange, CA 92668, (714) 567-2906

POST IN A PROMINENT PLACE

**Department of Public Health  
License Addendum**

Expires: 12/09/2013  
Licensed Capacity: 568

**HOAG MEMORIAL HOSPITAL PRESBYTERIAN (Continued)**

1 Hoag Dr.

Newport Beach, CA 92663-4162

**Other Approved Services (cont'd)**

Outpatient Services - HHCNB Rehabilitation Services at 520 Superior Ave., Suite 195, Newport Beach

Outpatient Services - Hoag Multispecialty Center at 520 Superior Ave., Suite 350, Newport Beach

Outpatient Services - Imaging Center at 510 Superior Ave., #100, Newport Beach

Outpatient Services - Imaging Center-Aliso Viejo at 26671 Aliso Creek Rd., #106 & #202, Aliso Viejo

Outpatient Services - Imaging Center-Costa Mesa at 1190 Baker St., #102, Costa Mesa

Outpatient Services - Imaging Center-HB at 19582 Beach Blvd., #100 & #112, Huntington Beach

Outpatient Services - Imaging Center-Woodbridge at 4870 Barranca, #100, Irvine

Outpatient Services - Imaging Center-Woodbury at 6352 Irvine Blvd., Irvine

Outpatient Services - Judy&Richard Vollmer Sleep Ct at 510 Superior Ave., #280, Newport Beach

Outpatient Services - Laboratory Services at 510 Superior Ave., Suite 110, Newport Beach

Outpatient Services - Mary & Dick Allen Diabetes Ctr at 520 Superior Ave., Suite 150, Newport Beach

Outpatient Services - MRI at One Hoag Dr., Bldg. #47, Newport Beach

Outpatient Services - Oncology Multispecialty Center

Outpatient Services - PET at One Hoag Dr., Bldg. #47, Newport Beach

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, Orange County District Office, 681 S Parker St, Ste 200, Orange, CA 92868, (714) 567-2906

POST IN A PROMINENT PLACE

**Department of Public Health  
License Addendum**

Expires: 12/09/2013  
Licensed Capacity: 568

**HOAG MEMORIAL HOSPITAL PRESBYTERIAN (Continued)**

1 Hoag Dr  
Newport Beach, CA 92663-4182

**Other Approved Services (cont'd)**

Outpatient Services - Pulmonary Rehab. at  
520 Superior Ave., #195, Newport Beach  
Outpatient Services - Surgicare at 1441  
Avocado Ave., #100, Newport Beach  
Outpatient Services - Wound Healing Center at  
520 Superior Ave., Suite 140, Newport  
Beach  
Physical Therapy  
Radiation Therapy  
Respiratory Care Services  
Social Services

**HOAG HOSPITAL IRVINE**  
16200 Sand Canyon Ave  
Irvine, CA 92618-3714

**Bed Classifications/Services**

84 General Acute Care  
12 Intensive Care  
72 Unspecified General Acute Care

**Other Approved Services**

Basic Emergency  
Cardiac Catheterization Laboratory Services  
Cardiovascular Surgery  
Mobile Unit - MRI - #1  
Mobile Unit - PET  
Nuclear Medicine  
Outpatient Services  
Outpatient Services - Chemical Dependency  
Respiratory Care Services  
Social Services

This LICENSE is not transferable and is granted solely upon the following conditions, limitations and comments:

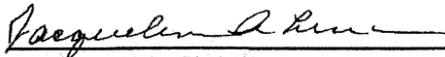
Consolidated license  
23 Beds suspended at ONE HOAG DRIVE are in rooms 101 - 112 and room 928.

Effective 12/1/11, Outpatient Chemical Dependency was added to the Irvine Campus at 16200 Sand Canyon Ave., Irvine, CA 92618

Effective 11/10/11, Outpatient Services - Cardiovascular Surgery was added to the Irvine Campus at 16200 Sand Canyon Ave., Irvine, CA 92618

*Ron Chapman, MD, MPH*

Director & State Health Officer



Jacqueline A. Lincer, District Manager

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, Orange County District Office, 681 S Parker St, Ste 200, Orange, CA 92668, (714) 567-2906

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